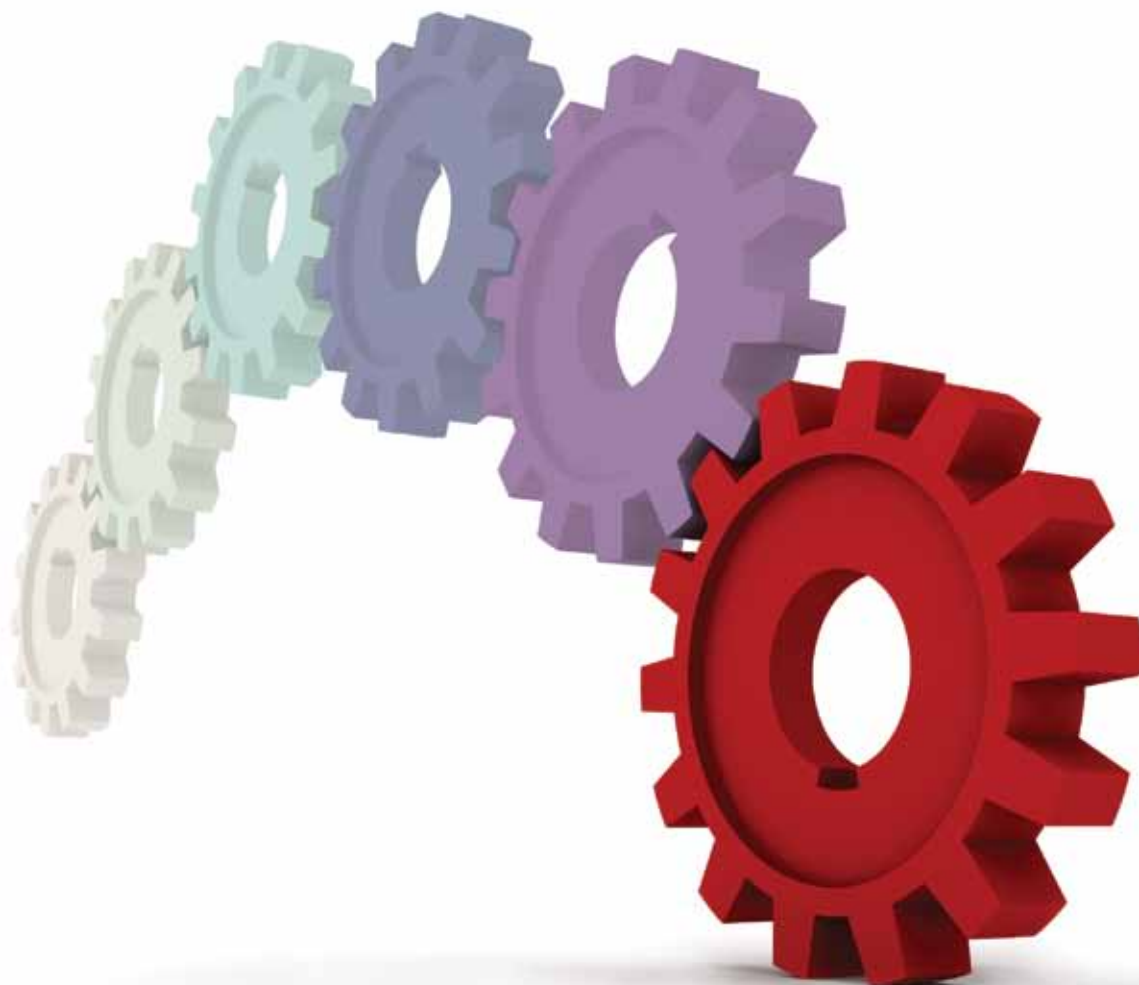




CLS Settlement[®] for non-deliverable forwards

cutting costs and enabling growth



“ The **standardisation** of formatted instructions along with agreed definitions and templates within the service will substantially reduce issues relating to cost and efficiency. ”



CLS has extended its Settlement service to the settlement of one way payment instructions relating to NDF transactions to provide increased operational efficiency to post-trade processes for this instrument. This extension leverages CLS Bank's existing service model and infrastructure, minimising implementation costs to current users of CLS Settlement.

What is an NDF?

A cash-settled, short-term forward contract on a thinly traded or non-convertible foreign currency. The currencies are not physically delivered, instead the contract is settled by calculating the difference between the agreed upon exchange rate and the spot rate at the time of settlement for an agreed upon notional amount of funds. One party in the agreement will make a payment to the other party on the basis of the profit or loss on the contract. NDFs are normally, but not exclusively, quoted and settled in US dollars.

Why are they used?

NDFs have become a popular instrument for corporations and financial institutions seeking to invest in and hedge exposure to foreign currencies that are not internationally traded. NDFs began to trade actively in the 1990's and estimates put the current market at about 10,000 sides a day with 60–80 per cent of this said to be speculative trading.

Processing problems:

Post trade processing of NDFs has traditionally been manually intensive, due to lack of standardisation and the use of long-form confirmations. These factors contribute to expensive processing costs of US\$20 per trade*, a significant multiple of the cost to process an FX inter-bank trade.

* Z-Yen Limited (2004)

Today's processes around NDFs are cumbersome, painful and inconsistent across the participants... industry standardisation will not just streamline back office processes, but may in fact even **free up capacity** on the trading floor, allowing far more activity in the NDF arena.



Solution: CLS Settlement for NDFs

The CLS Settlement service for NDFs provides automation in an environment where little standardisation or automation currently exists, delivering convergence and standardisation on a global scale, increasing efficiency and significantly reducing both cost and operational risk.

CLS Settlement for NDFs offers a complete straight through process, post execution to settlement, capturing the various instructions for the life of the contract (opening and valuations) and provides matching, settlement and reporting services. The service is available for around 50 NDF reference currencies with settlement of the net amount in any one of the 17 CLS Settlement eligible currencies.

The CLS Settlement service is complemented and enhanced by the NDF Protocol managed by CLS which eliminates the need for participating institutions to exchange separate long-form confirmations. The NDF Protocol incorporates the 'Multilateral Master Confirmation Agreement for Non-Deliverable Forward FX Transactions' jointly sponsored and published by industry groups in October 2007.

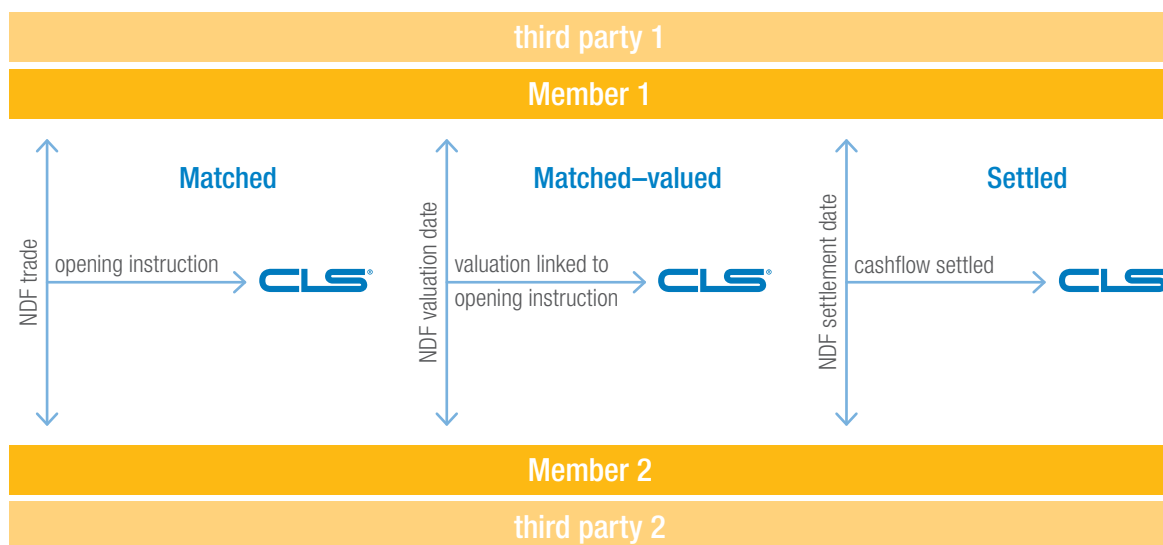
With CLS there is a two hour submission best practice, with the ability to **track** any unmatched items **through the real time information** provided by CLS. As a result we have improved oversight of the settlement process and reduced the need for reconciliations.



What are the benefits of CLS Settlement for NDFs?

- Standardisation
 - » SWIFTNet FIN and ISO 20022 XML message standards
- Elimination of manual processes
- Cost reduction
- Automation and straight through processing
 - » post-trade confirmation through to settlement
- Elimination of the long-form confirmation
 - » multilateral master confirmation
 - » protocol for NDF instructions
- Insulation against volume spikes
- Settlement efficiencies
- Operational risk reduction

CLS Settlement for NDFs: NDF trade lifecycle



Trade date

- » NDF opening instructions are sent to CLS (including settlement currency and valuation date)
- » CLS matches – status ‘matched’

Valuation date

- » NDF valuation instructions sent to CLS (including reference to NDF opening)
- » Valuation linked to opening
- » CLS matches valued NDF – status ‘matched-valued’
- » Cashflow prepared for settlement

Settlement date

- » Cashflow settled
- » Instructions retained online for 90 days

NDF instruction submission methods

- » Direct submission of XML messages over SWIFTNet
- » T- copy of SWIFTNet FIN MT300 settlement currency and valuation date in field 77D
- » Direct submission of SWIFTNet FIN MT304 settlement currency and valuation in field 72
- » Manual entry at browser screen

Argentine peso (ARS) * Australian dollar (AUD) * Botswana pula (BWP)
* Brazilian real (BRL) * Bulgarian lev (BGN) * Canadian dollar (CAD) *
Chilean peso (CLP) * Chinese yuan renminbi (CNY) * Columbian peso
(COP) * Czech koruna (CZK) * Danish krone (DKK) * Egyptian pound
(EGP) * Euro (EUR) * Hong Kong dollar (HKD) * Hungarian forint (HUF)
* Indian rupee (INR) * Indonesian rupiah (IDR) * Japanese yen (JPY)
* Kenyan shilling (KES) * Malawi kwacha (MWK) * Malaysian ringgit
(MYR) * Mauritius rupee (MUR) * Mexican peso (MXN) * Mozambique
metical (MZN) * New Israeli shekel (ILS) * New Romanian leu (RON)
* New Taiwan dollar (TWD) * New Turkish lira (TRY) * New Zealand
dollar (NZD) * Norwegian krone (NOK) * Pakistani rupee (PKR) *
Peruvian nuevo sol (PEN) * Philippine peso (PHP) * Polish zloty (PLN)
* Russian ruble (RUB) * Singapore dollar (SGD) * South African rand
(ZAR) * South Korean won (KRW) * Swedish krona (SEK) * Swiss
franc (CHF) * Tanzanian shilling (TZS) * Thai baht (THB) * Uganda
shilling (UGX) * UK pound sterling (GBP) * Ukrainian hryvnia (UAH) *
Uruguayan peso (UYU) * US dollar (USD) * Venezuelan bolivar fuerte
(VEF) * Vietnamese dong (VND) * Zambian kwacha (ZMK)

Long form confirmations are time consuming and costly to administer and even though there is a gradual move towards 'short form' confirmations, NDF processing still has a very low STP rate and relies on manual intervention. CLS brings the opportunity to achieve 100% STP and considerably **decrease processing** volume sensitivity.



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