



CLS market share

February 2011

Purpose

This document explains the basis on which CLS has estimated its share of the FX market.

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CLS provides a settlement risk elimination service for the FX market in 17 currencies. These currencies represent 94% of the total daily value of currencies traded globally.¹ Based on information in our settlement service and recent central bank and market surveys, we estimate that CLS settles **58%** of the global FX trading activity (by value) and, in terms of the market for which we provide settlement risk elimination services (i.e. 17 currencies in a single, core session), our market share is **68%**. Our key strategic priorities of adding more currencies and settlement sessions to the service will further reduce FX settlement risk as a source of systemic risk for the financial system.

Recent central bank and market surveys include:

- The Bank for International Settlements (BIS) published in December 2010 the results of its triennial central bank survey of foreign exchange (FX) activity. 53 central banks participated in the survey, with each collecting data from 1,309 reporting dealers² and using April 2010 as the sample period.
- The Foreign Exchange Committee (FXC) and the Foreign Exchange Joint Standing Committee (FX JSC) collected data from major financial institutions in 2010³ on the size and structure of FX activity in the US and the UK, respectively.
- Information collected from CLS Members on FX same-day and options in 2009 and 2010, respectively.

Methodology

The methodology used for estimating our percentages is as follows:

1. The BIS 2010 Survey results for global FX market turnover, including FX spots, forwards, swaps, currency (interest rate) swaps and options, were adjusted to exclude the value of (i) trades customarily viewed as not presenting settlement risk, either due to the nature of the trade or the way in which it is processed for settlement; and (ii) currency (interest rate) swaps, as we do not presently view them as within the core FX market. These adjustments reduce the BIS value for the FX market of 3,981bn USD to 2,491bn USD for April 2010. **We view this 2,491bn USD figure as the core global FX trading market.** By then excluding the value of FX trades in currencies and same-day activity which are not settled in our service today, the figure of 2,491bn USD is further reduced to 2,125bn USD. **We view 2,125bn USD as the FX market that CLS could service.**
2. Information from our settlement service in April 2010, which relates to settled values of two payment instructions relating to a single FX trade, was adjusted to reflect the equivalent of traded values because the BIS 2010 Survey results are reported as traded values. Using BIS reporting conventions, the CLS settlement value of 3,981bn USD is converted to 1,444bn USD of BIS traded value (see Appendix for conversion methodology). **We view 1,444bn USD as the traded FX value settled daily in CLS for April 2010.**
3. Based on these figures:
 - CLS settles **58%** of the global FX trading activity (1,444bn / 2,491bn USD)
 - CLS settles **68%** of the market for which CLS provides settlement risk elimination services (1,444bn / 2,125bn USD)

¹ BIS Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity in April 2010 – Final Results (December 2010): <http://www.bis.org/publ/rpfx10t.htm> (BIS 2010 Survey).

² See BIS 2010 Survey. The reporting dealers are the largest FX banks in each reporting jurisdiction which, for the major markets, are effectively the CLS Settlement Members.

³ The September 2010 FXC survey collected data from 25 institutions active in the North American market: <http://www.regulations.gov/#!documentDetail:D=TREAS-DO-2010-0006-0015>, specifically Attachment C located at <http://www.regulations.gov/#!documentDetail:D=TREAS-DO-2010-0006-0015.4>. The April 2010 FX JSC survey collected data from 31 institutions active in the UK market: <http://www.bankofengland.co.uk/markets/forex/fxjsc/>.

APPENDIX

CLS equivalent of BIS traded values

Table 1: Growth rates by instrument

Instrument	BIS survey values			CLS equivalent values ^(a)		
	2007 ⁴ (US\$ bn)	2010 ⁵ (US\$ bn)	% change	2007 (US\$ bn)	2010 (US\$ bn)	% change
Spot	1,005	1,490	48%	413	635	54%
FX swap	1,714	1,765	3%	577 ^(b)	681 ^(b)	18%
Outright forward	362	475	31%	104 ^(c)	128 ^(c)	23%
Option	212	207	- 2%	– ^(d)	– ^(d)	–
Currency (interest rate) swap	31	43	39%	– ^(e)	– ^(e)	–
Total	3,324	3,981	20%	1,094	1,444	32%

- NOTES
- (a) **CLS equivalent values.** To convert CLS settlement values into the equivalent of traded values used by the BIS 2010 survey, our settlement values for April 2010 were divided by two for FX spot, swaps and forwards, with the near leg of FX swaps excluded.⁶ This is because our settlement service processes payment instructions for both sides of a single FX trade, i.e. two currency payments.
 - (b) **FX swaps.** Payment instructions received by CLS do not include any formal instrument indicator (e.g. spot, forwards, swap, exercised option). The instrument level breakdown for swap activity is derived through the identification of equal and opposite FX spot and forward trades in the CLS system. CLS equivalent values for FX swaps were calculated by dividing settlement values by two, having excluded the near leg of the swap altogether.
 - (c) **Outright forwards.** In contrast to the BIS figures, CLS values for outright forwards do not include notional values of non deliverable forward (NDF) trades.
 - (d) **Options.** CLS processes exercised options in the form of payment instructions which appear as spot trades. CLS equivalent values for spot trades includes the value of these exercised options.
 - (e) **Currency (interest rate) swaps.** CLS does not process payments for these trades.

⁴ BIS Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity in April 2007 – Final Results (December 2007) <http://www.bis.org/publ/rpfx07t.htm>

⁵ BIS Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity in April 2010 – Final Results (December 2010): <http://www.bis.org/publ/rpfx10t.htm>.

⁶ This exclusion is consistent with the convention used in the BIS 2010 Survey.

Appendix cont'd

Global FX activity and CLS market share

Table 2: Adjustments to BIS 2010 Triennial Central Bank Survey of FX

	Values (US\$ bn)								
	BIS 2010	No settlement risk ^(a)			Instruments NON-CLS ^(b)	Adjusted BIS 2010 (Core Global FX Market)	Currencies NON-CLS ^(c)	Same-day activity NON-CLS ^(d)	Further adjusted BIS 2010 (CLS market share)
		Spots, swaps & forwards ^(a1)	NDFs ^(a2)	Options ^(a3)					
Spot	1,490	-468				1,022		1,022	
FX swap	1,765	-554				1,211		1,211	
Outright forward	475	-149	-109			217		217	
Option	207			-166		41		41	
Currency (interest rate) swap	43				-43	0		0	
Currencies							216	-216	
Same day							150	-150	
Total	3,981					2,491		2,125	

NOTES (a) **FX trades not exposed to settlement risk.** Settlement risk is defined as the risk of loss of principal which arises because payments in two currencies due under the transaction are not simultaneously exchanged/settled. The BIS values have been adjusted to exclude the following FX trades which are customarily viewed as not presenting settlement risk:

(a1) **Spots, swaps and forwards.** In its November 2010 response to the US Treasury Department's Request for Comment on Determination of Foreign Exchange Swaps and Forwards, the FXC included a survey of settlement practices.⁷ The survey indicated that 31.4% of the total value of FX trading activity in September 2010 did not present settlement risk, of which 24.4% was settled internally (i.e., book transfers, which are credit and debits, effected across a single bank's books for clients).

(a2) **Non-deliverable forwards (NDFs).** In its April 2010 survey,⁸ the FX JSC indicated that NDFs account for 23% of the reported amount for FX forwards. Because these trades are settled in a single currency, they do not present settlement risk.

(a3) **Options.** Based on information provided to CLS from its Settlement Members in 2010, an estimated average of 20% of the notional amount of FX options are exercised. Because the remaining 80% expires, the values do not need to be settled.

(b) **Instruments not supported by CLS.** Because CLS does not provide settlement services for currency (interest rate) swaps, the BIS values have been adjusted to exclude these values.

(c) **Currencies not settled in CLS.** The BIS values have been adjusted to exclude FX trades in currencies which are currently not settled in CLS. The 17 currencies settled in CLS represent 94.2% of the global FX trading activity.

(d) **Same-day activity not settled in CLS.** Based on information provided to CLS from its Settlement Members in 2009, the value of same-day FX trades is estimated as 150 billion USD. The BIS values have been adjusted to exclude this value.

⁷ <http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2010-0006-0015>, specifically Attachment C located at <http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2010-0006-0015.4>.

⁸ <http://www.bankofengland.co.uk/markets/forex/fxjisc/>