

“ Market infrastructures, like CLS, play an important role in the smooth functioning of financial markets. During the heightened volatility in the FX market experienced as a result of the Covid-19 pandemic, using CLS Settlement to process our FX transactions safely and efficiently enabled us to focus efforts on other areas of our business as needed and continue to thrive. ”

Mitsuru Tsuboi
Deputy GM, Planning & Administration, Finance
Mitsui & Co., Ltd.

1st

Japanese corporate to access CLS Settlement as a third party, through SMBC

92%

of Mitsui's total FX transactions settle in CLS Settlement

CLS Settlement

Mitsui & Co. became the first Japanese corporate to access CLS Settlement as a third-party participant in March 2018, through Sumitomo Mitsui Banking Corporation (SMBC), a CLS settlement member.

Mitsui & Co. (Mitsui) is a Japanese general trading company with a diverse business portfolio and 132 offices across 64 countries and territories as of 1 April 2021. Its portfolio includes steel products, mineral & metal resources, machinery & transportation systems, chemicals, energy, foodstuffs, distribution, healthcare & services, consumer business, information & communication technology, and corporate development. The company also engages in logistics, finance, and the construction and operation of international projects.

As part of its efforts to streamline its foreign currency operations and mitigate FX settlement risk, Mitsui had to rely on experienced staff before it used CLS Settlement to settle its FX transactions.

Market challenges

Mitsui's Finance division is responsible for securing liquidity through capital raises, clearing and settlement of funds and securities, and execution of various financial transactions, such as FX forwards and swaps and options for interest rates and currencies. The company's FX transactions involve sales, paid-in capital reductions, dividend payments and trades of several hundred million USD in merger and acquisition deals. At Mitsui's head office in Japan alone, the annual turnover of FX forwards is approximately JPY2 trillion to JPY3 trillion (USD18 billion to USD27 billion).

Such diverse and complex business operations require Mitsui's processes to be agile, efficient, timely and stable. Further, to ensure access to sufficient liquidity across the FX market, particularly during periods of extreme volatility, it actively trades with over 20 counterparty banks and broker-dealers where Mitsui holds multiple accounts across multiple currencies. To consolidate the proceeds in each currency into its central payment bank, SMBC, Mitsui previously used a variety of methods, including internet banking services, telephone, fax or email communication, to transfer funds between banks. To simplify and streamline complex arrangements, Mitsui tried Robotic Process Automation and Single-Sign-On tools to maximize automation, but these only provided limited improvements in overall process efficiency.

As Mitsui's business presence expanded into emerging economies and new industries, the company was required to allocate more resources to these areas. It also became apparent that trading stocks and FX options and swaps in emerging market currencies was far from standardized and required significant manual intervention by skilled employees.

Mitsui was also under pressure in Japan to address social demands and reform its operations, including improving employees' work-life balance and reducing their total number of working hours. This changing business environment made Mitsui realize that they had to look at enhancing their processes and do things differently.

During the review process, the company also closely examined its FX payment flows. Through its existing counterparty banks and broker-dealers — who are CLS settlement members — Mitsui was already familiar with CLS and its critical role in ensuring FX market stability during the 2008 global financial crisis. As a result Mitsui recognized that by using CLS Settlement, CLS's global payment-versus-payment (PvP) FX settlement system, it could address a number of its growing business pain points.

“The percentage of FX transactions settled in CLS Settlement has grown steadily, enabling Mitsui to streamline its business processes while also mitigating FX settlement risk for its payments.”

The solution

CLS operates CLS Settlement, the world's largest multicurrency payment system, and has over 70 of the world's most important financial institutions as its settlement members. It is available both directly, to settlement members, and indirectly, to third-party participants around the world, including non-bank users such as large multinational corporations. Third-party participants can access CLS Settlement through various settlement members that offer CLS-related services to their clients.

Mitsui wanted to use CLS Settlement to settle its FX transactions through settlement member bank SMBC and benefit from improved operational and risk management efficiencies. However, Mitsui did not have access to the SWIFT network to send payment instructions for SMBC to submit on its behalf to CLS Settlement. To overcome this issue, Mitsui used its confirmation matching system (CMS) to generate SWIFT instructions for its FX trades to SMBC, negating the need for Mitsui to incur the additional expense of building its own SWIFT capability.

In March 2018, Mitsui became the first corporation in Asia to settle its FX transactions in CLS Settlement with SMBC and five counterparty banks and broker-dealers. Initially Mitsui settled a small percentage of its overall FX transactions in CLS Settlement. Steadily growing this percentage over time, Mitsui gradually streamlined its business processes and consolidated payment instructions with SMBC to achieve operational efficiencies, while also mitigating FX settlement risk for its payments that are exposed to time zone differences.

To maximize these benefits, Mitsui prefers that its FX counterparty banks adopt CLS Settlement. The company currently settles five currencies in CLS Settlement, approximately 92% of its total FX transactions, with 17 banks and broker-dealers (as of 31 March 2021). Mitsui plans to add more currencies over time, which will further align its payment processes.

CLS's mission is to minimize systemic risk while improving funding and operational efficiency for clients and the broader FX market. Its critical role in the smooth functioning of the FX market was no more evident than during the ongoing Covid-19 pandemic, in which many firms have been adapting to the new normal and remote working arrangements. CLS Settlement's centralized funding solution, via SMBC, has improved Mitsui's treasury operations during the pandemic.

Mitsui's early adoption of PvP through CLS Settlement demonstrates its leadership in the Asia Pacific market.

Adoption of best practices

Mitsui enjoys enhanced relationships with its FX counterparties as the adoption of CLS Settlement has optimized trading limits, mitigated settlement risk, and enhanced efficiency and stability for both Mitsui and its counterparties.

In addition to the direct benefits to Mitsui and its counterparties, the adoption of CLS Settlement was also an extremely positive message for the firm's investors and stakeholders. PvP is a best practice encouraged by the principles of the FX Global Code, and Mitsui's early adoption of PvP through CLS Settlement demonstrates its leadership in the Asia Pacific market.

Mitsui today

Mitsui is viewed as a firm that embraces new technologies and innovation, and it has received several invitations to participate in proofs-of-concept (POCs) for various initiatives. The adoption of CLS Settlement marks the beginning of a positive journey for Mitsui – from improved operational efficiencies to market leadership and a better work-life-balance for its employees.

Benefits of CLS Settlement

Provides significant operational efficiencies

By centralizing and automating all FX confirmation, matching and payments to and from counterparty banks in CLS Settlement-eligible currencies.

Improves cash management

Minimizes liquidity requirements and number of payments through multilateral netting (maximum one per currency and value date, thereby improving cash management efficiency.

Streamlines process

Removes the requirement for individual counterparty payments in CLS Settlement-eligible currencies to be managed by treasury.

Mitigates settlement risk

Mitigates settlement risk and optimizes credit line usage with counterparty banks.

FX Global Code

Using CLS products and services plays an integral part in helping you comply with the FX Global Code. Find out more at cls-group.com

Trusted by thousands of counterparties within the global FX ecosystem, CLS makes FX safer, smoother and more cost effective. Trillions of dollars' worth of currency flows through our systems each day.

For more information please email sales@cls-group.com

London
Hong Kong
Tokyo

New York
New Jersey

info@cls-group.com
cls-group.com