



CLS for the investment industry

Refresh

Kristiina Kurki-Suonio

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June 6 – 8, 2010



CLS mission

“To be the industry choice for co-operative solutions for FX post trade efficiencies and settlement services - the one stop shop for FX”

www.cls-group.com

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What is CLS?

CLS Bank provides the largest multi-currency cash settlement system, eliminating settlement risk for over half the world's foreign exchange payment instructions.

CLS Settlement is the **only** means by which settlement risk can be eliminated with finality using a unique combination of payment versus payment in central bank funds, multilateral payment netting and a standard legal framework, supported by a robust and resilient infrastructure.

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CLS: the market standard

- **Eliminates FX settlement risk** in payment instructions related to trades in seventeen currencies and six instruments:
 - FX spot, forwards, option exercises, swaps, non deliverable forwards and credit derivatives
- Settles matched trades on a **payment versus payment (PvP)** basis
 - Guarantees principal amount in the event of counterparty failure
- **Multi-laterally nets** all cash obligations per value date
- Settlement is **final** and operates within a standard **legal framework & operating rules**
- Supported by a **robust and resilient** infrastructure
 - One of six critical market infrastructures supervised by the NY Federal Reserve



Settlement accounts with 17 central banks

Settles 17 currencies that account for 95% of daily traded value

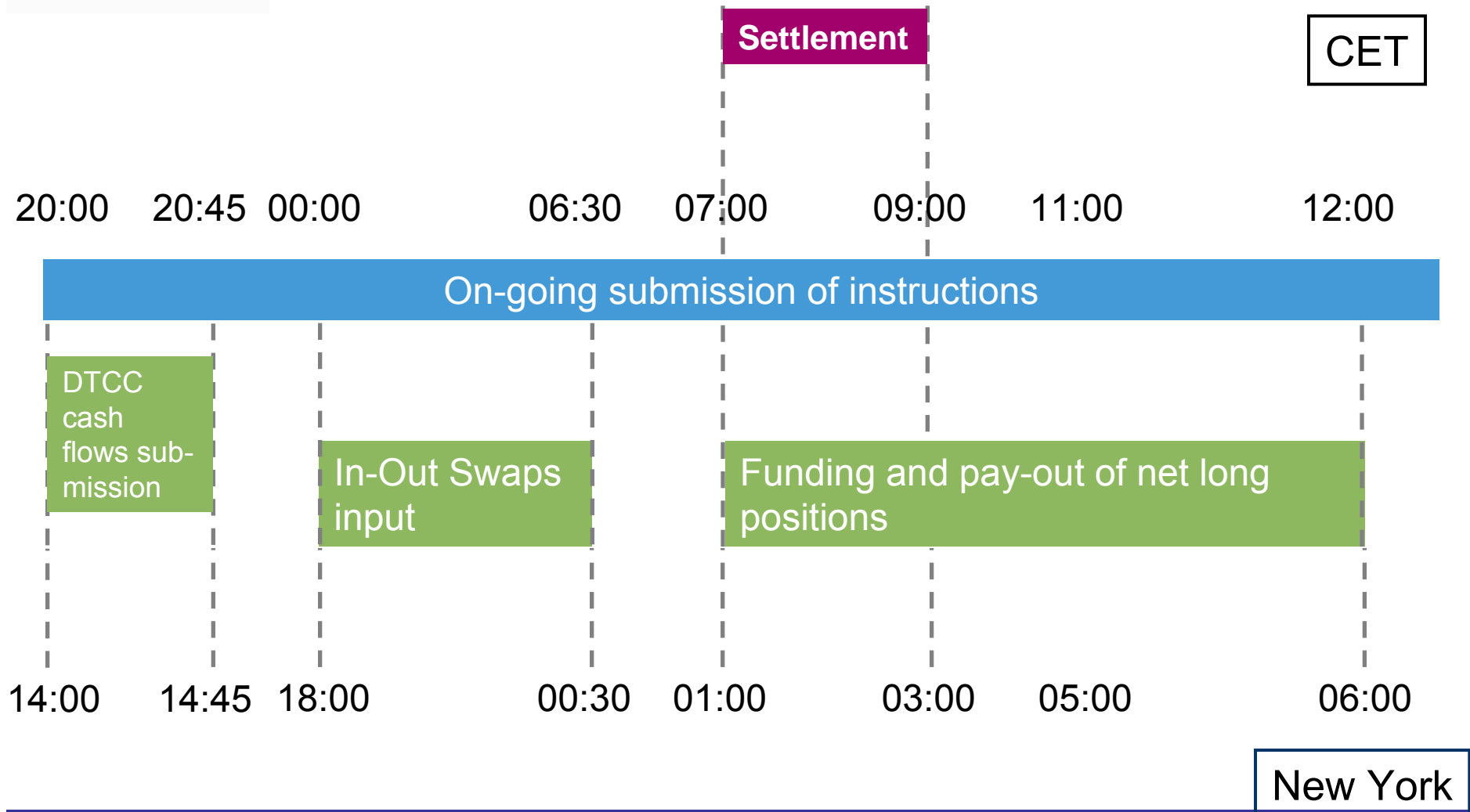


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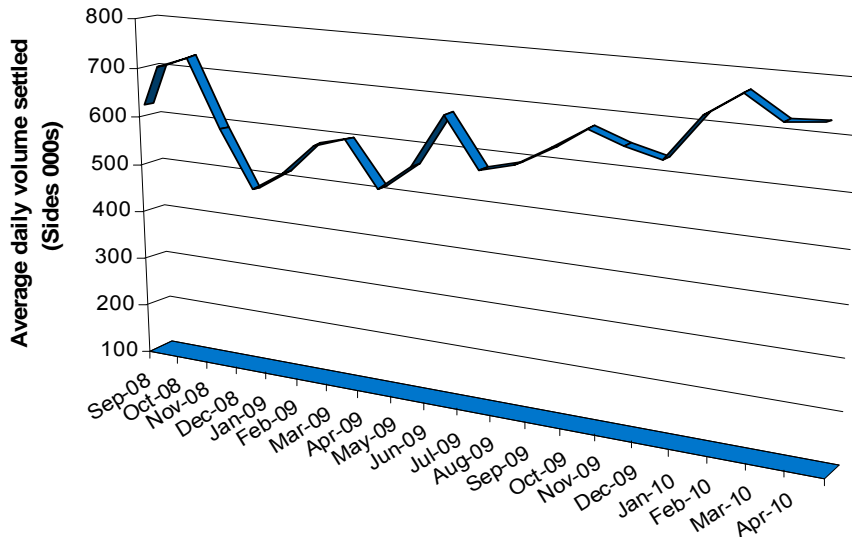
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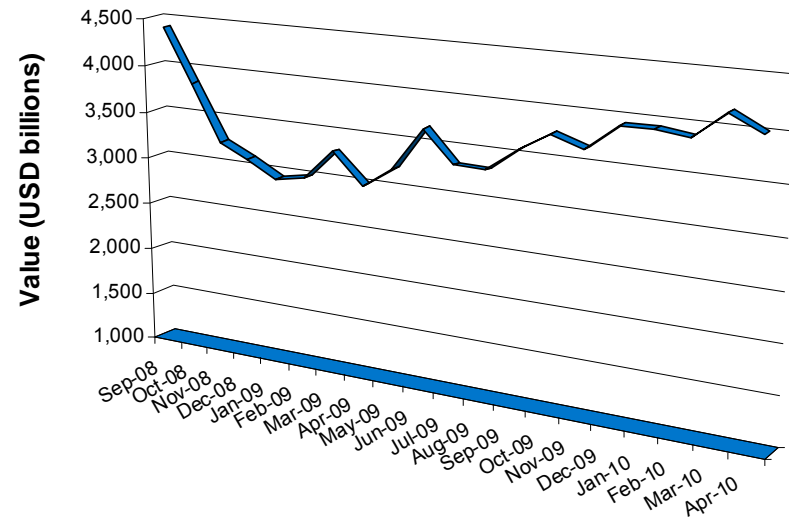
CLS volumes and values (April 2010)

Volume



**750,000 instructions daily
(1,733,262 peak day)**

Value



**\$4.15 trillion daily
(\$10.3 trillion peak day)**

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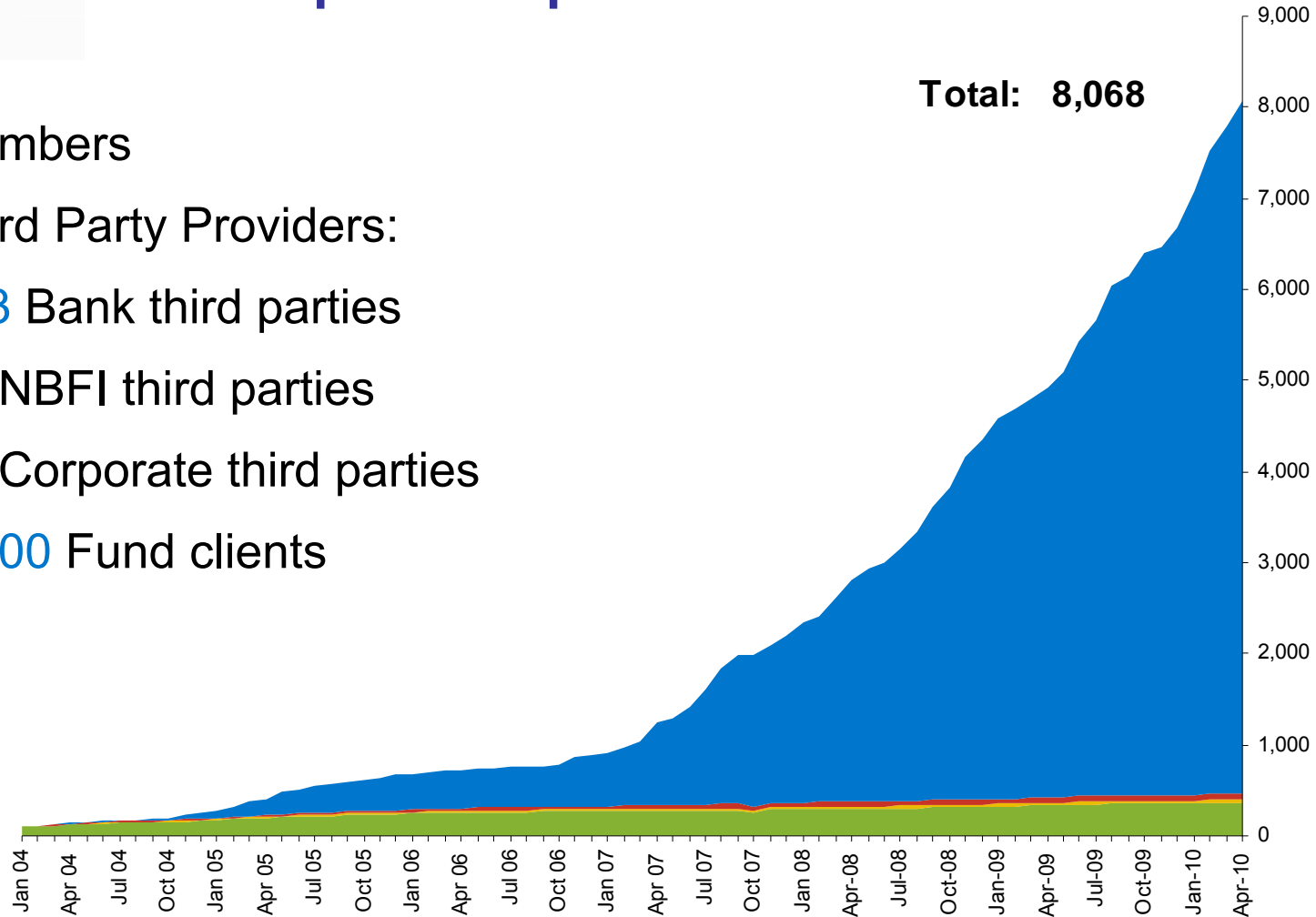


CLS participation

60 Members

24 Third Party Providers:

- 363 Bank third parties
- 62 NBF1 third parties
- 30 Corporate third parties
- 7,600 Fund clients



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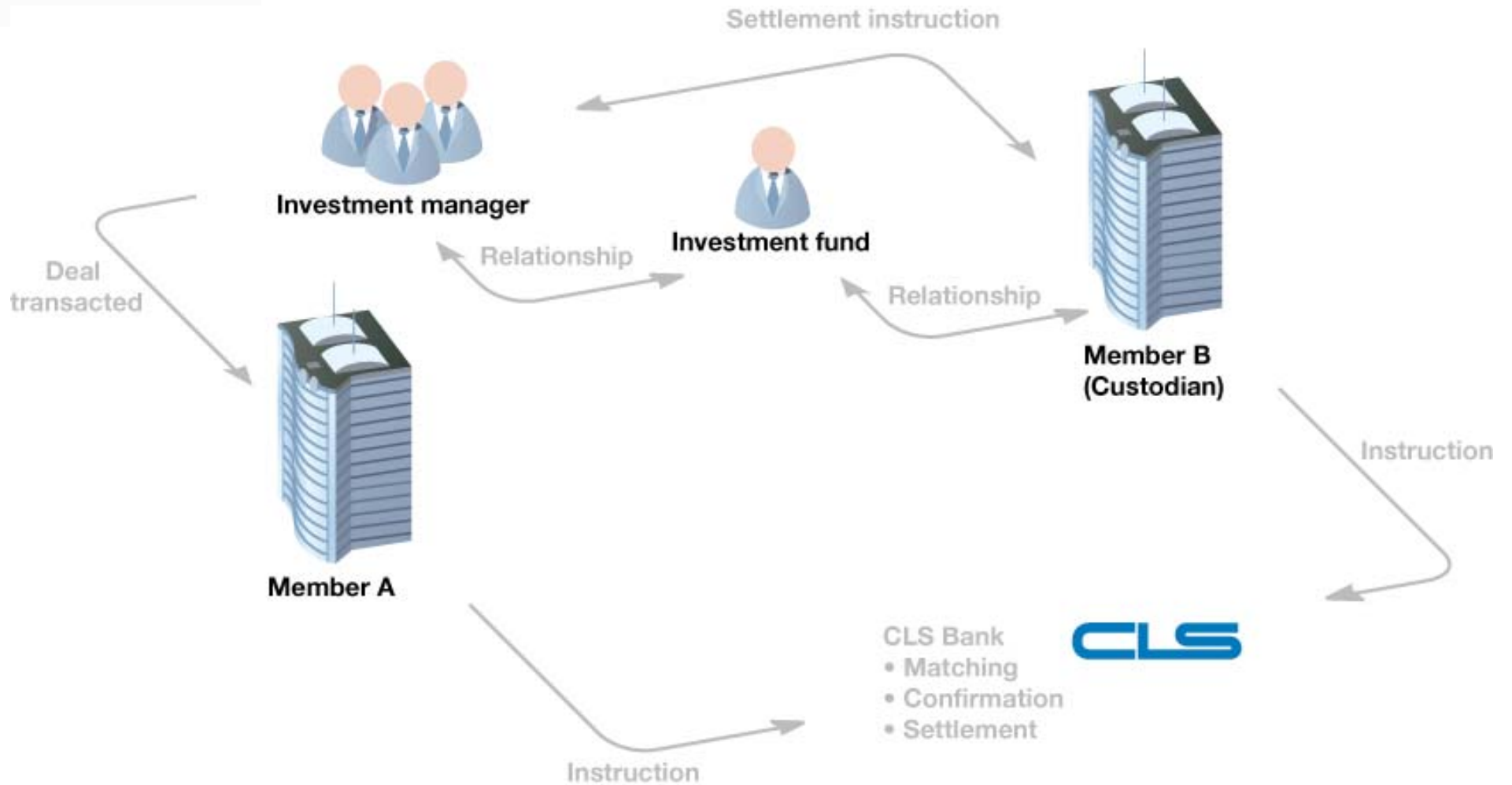
CLS for Fund Managers, Custodians and Funds

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Fund FXSM flow



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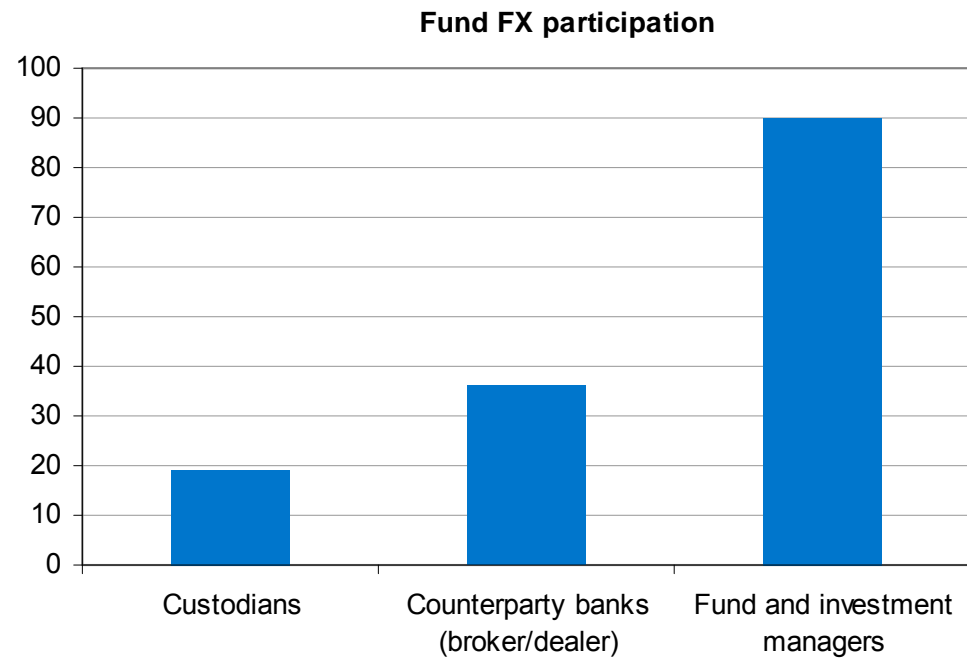
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Who can use CLS Fund FX?

Available to the investment management community through CLS-enabled custodians and broker banks, including:

- Investment fund managers
- Hedge funds
- Pension funds
- Overlay funds
- Third party custodians





How to get started ?

- What do I need to do to participate?
 - Establish whether your custodian bank can offer CLS Settlement
 - Ensure your broker bank has access to CLS
 - Contact both to review what you'll need to implement CLS
 - CLS use of industry standards means minimal system changes
- Do I have to be a SWIFT user?
 - It's recommended but there are proprietary ways to access CLS
- How do I know my trade has settled?
 - Custodians have real time access to monitor trade status
 - CLS is investigating a direct reporting service for the FM market
- What does it cost?
 - CLS has a tariff for Members
 - Fund Managers agree charges individually with Custodians



Benefits for investment managers 1 (2)

- **Oversight** of settlement throughout the trade lifecycle:
 - Resolution of problems prior to settlement date
 - Settlement completed or your principal back
- Increased operational **efficiency and cost** savings
 - Elimination of fails, compensation claims and interest charges
 - Enhanced STP
 - Reduced number of settlements and associated costs
 - Efficient allocation of monetary and physical resources

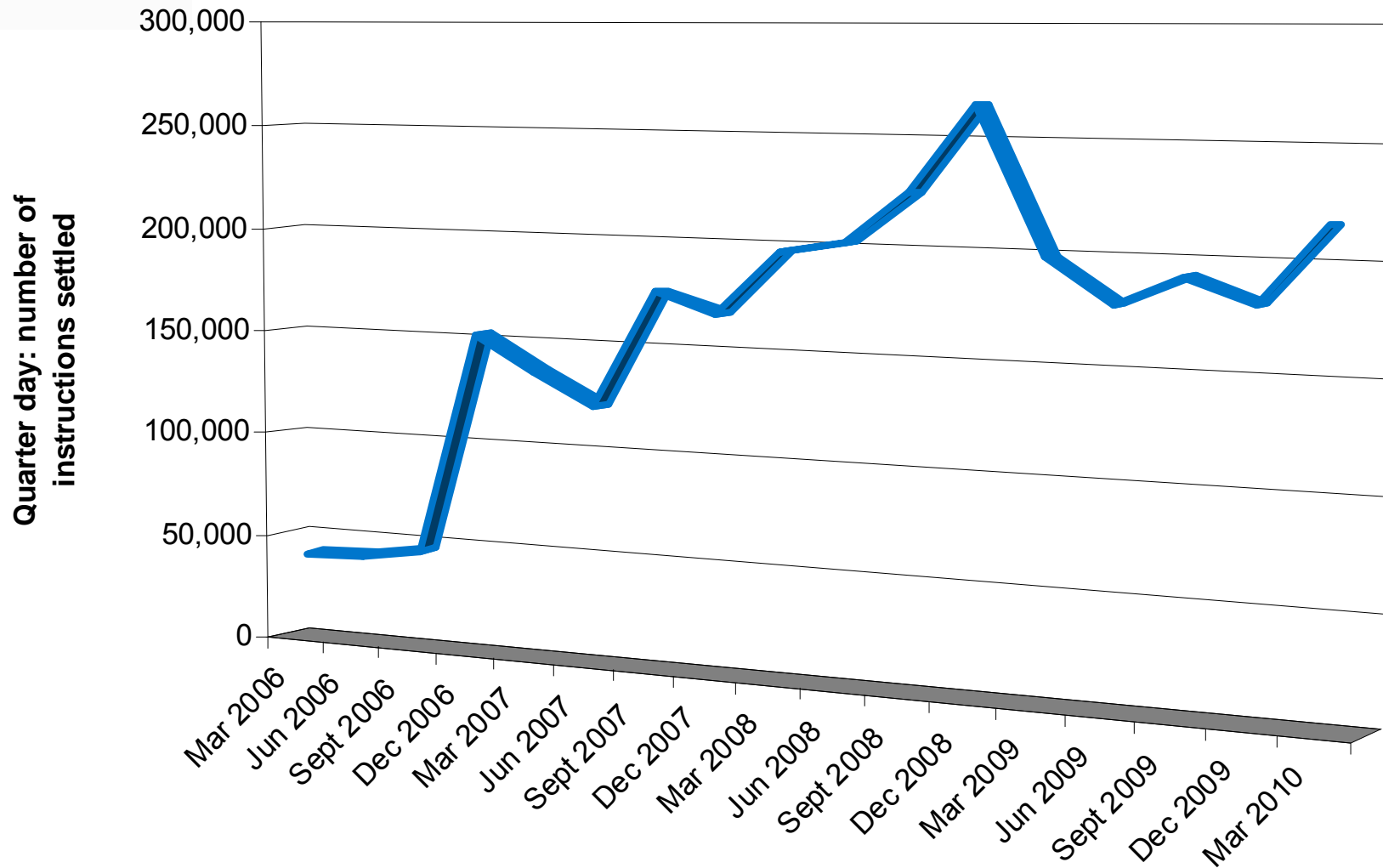


Benefits for investment managers 2 (2)

- Improved **liquidity** management
- Settlement risk elimination **reduces credit barriers** to trading
- Competitive positioning/ **business opportunities**
- Regulatory compliance



CLS for funds: steady growth, more to do

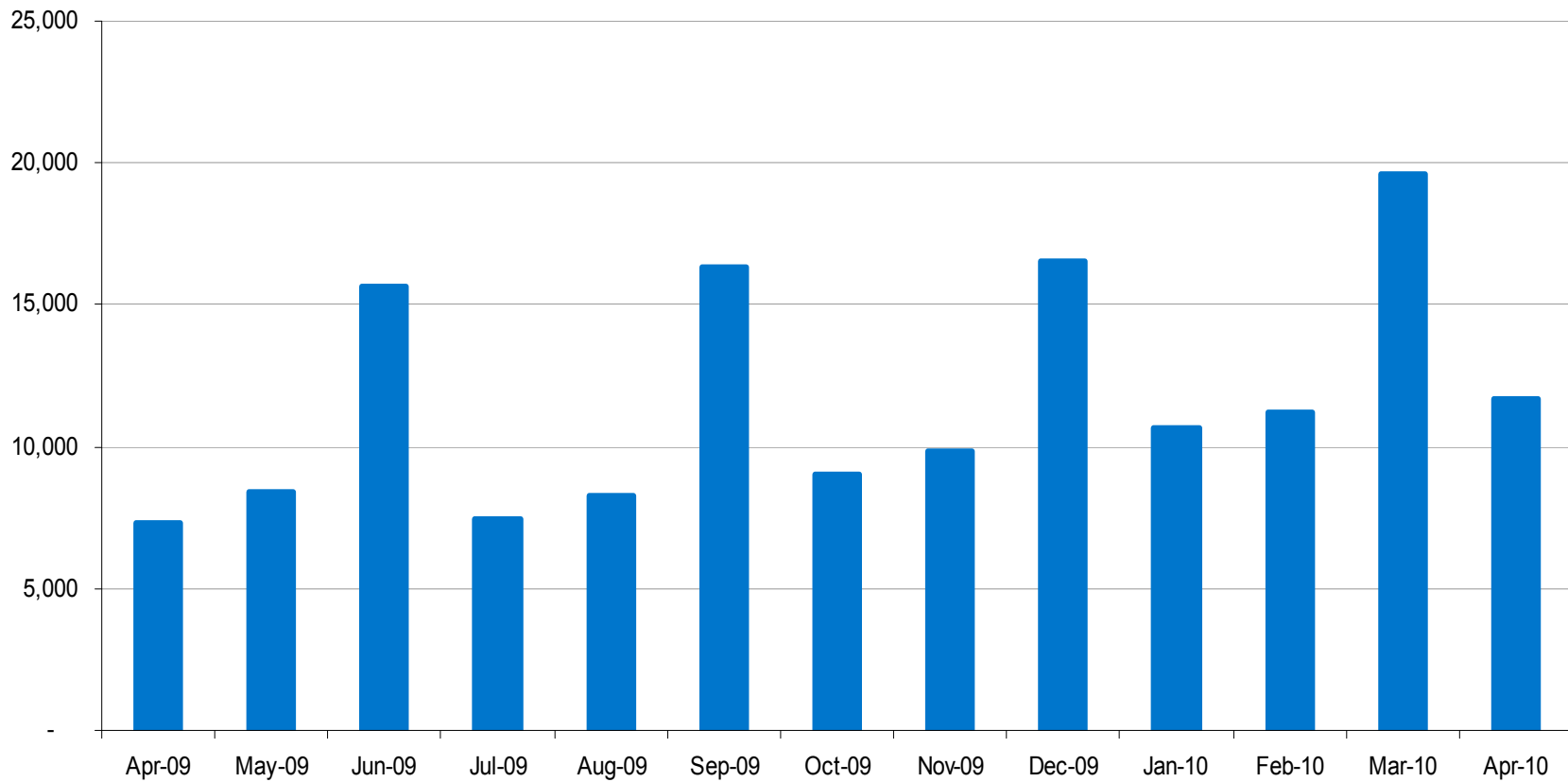


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Fund FX – average daily volume

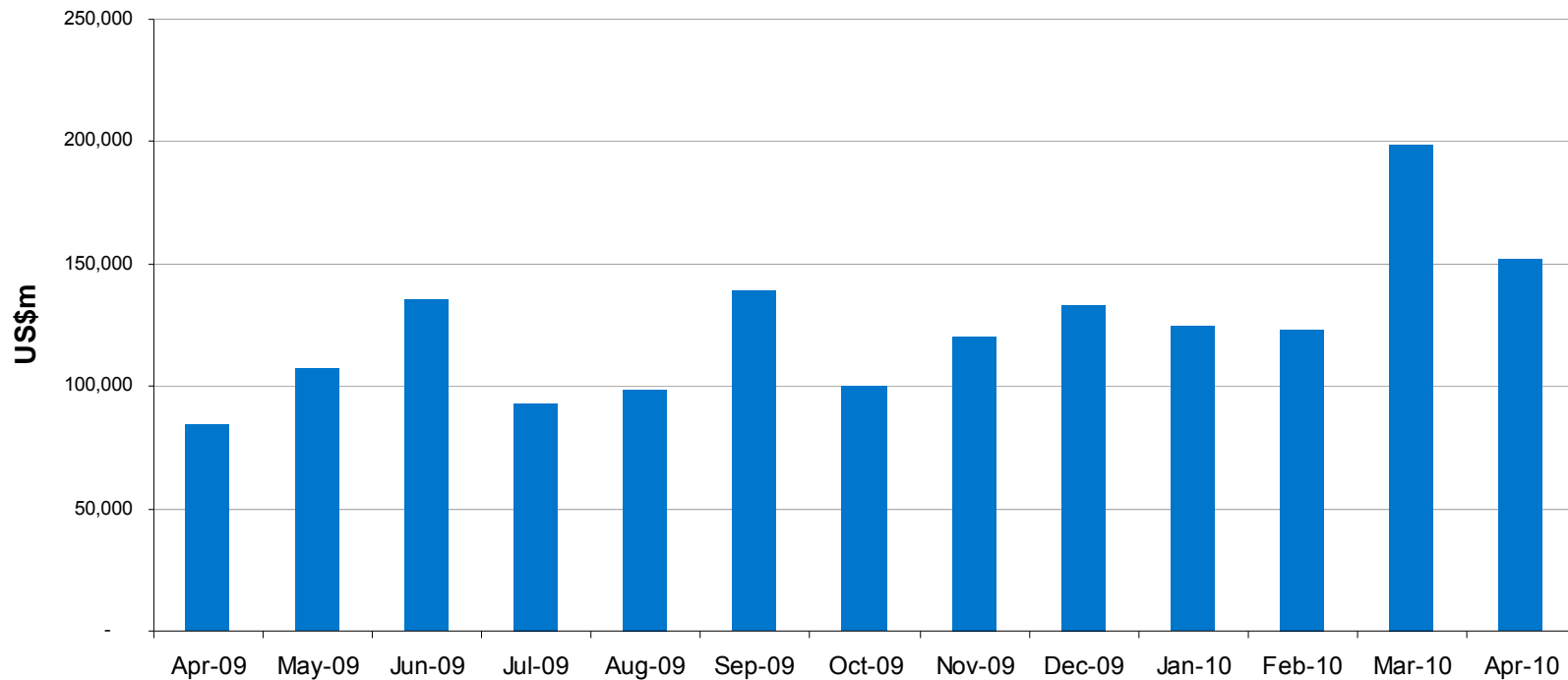


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Fund FX– monthly settled value



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Working Groups for improved service

- **Fund Managers' Working Group**
 - Address and advise on issues relating to Fund Management community in respect of the CLS Fund FX Service
 - 34 participating institutions meeting three times per year

- **Custodians' Working Group**
 - Address and advise on issues relating to Custodial service provision and usage of the CLS Fund FX Service
 - 13 participating institutions meeting three times per year

- **Joint Working Group for Fund Managers and Custodians**
 - Agree and propose solutions for mutual benefit
 - Meets twice a year or when required

CLS Working Groups drive industry collaboration and practices

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What do Fund Managers say about CLS

“Our implementation of CLS was driven by the need to reduce our FX settlement risk and our perception of CLS as the final link in our STP goals. The benefits in both areas have been tangible. Where we have been able to use CLS, credit limits have ceased to be an issue, and the time saved on trade failure investigations has been considerable.”

Newton Investment Management

“CLS adds another level of control to our trading process and has significantly reduced what we need to do manually which is fantastic. CLS is also risk-reducing for our clients as the potential for settlement errors and the cost of them is eliminated.”

Record Currency Management

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FX and Derivatives Commitments: NDF solution and Credit Derivatives Settlement

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CLS NDF value proposition

- Standardisation, automation and STP
- Legal confirmation of the underlying transaction
- Operational risk reduction
- Integrated with FX settlement
- Reduces costs and maximises CLS netting benefits
- Elimination of manual processes
- 17 settlement currencies, 51 reference currencies
 - EMTA templates for 17 currency pairs (more under development)
- NDF Protocol incorporates industry multilateral master agreement
- Support for Settlement Members, Third Party services, Fund Managers and custody trades
 - Evaluation of further development for buy-side underway



CLS cash settlement for credit derivatives

- Partnership with DTCC
- Integrated global payment processing infrastructure for the OTC credit derivatives market
 - Links DTCC – Deriv/SERV Trade Information Warehouse with a central settlement system - CLS
- Automated, streamlined cash processing and settlement with certainty for OTC credit derivative contracts:
 - Efficient payment netting:
1,250,000 gross payments → 760 net payments
- Deriv/SERV warehouse (and users) receive real-time information on status of all payment instructions
- Buy-side adoption of central settlement is growing



FX market developments

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FX market and the financial crisis

“Foreign exchange is one of the few markets that can be said to have had a good crisis.”

“Foreign Exchange”, FT Special Report, March 2010

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FX market developments

- Strong return to growth (post-financial crisis)
- Reducing trade values – platform trading exceeds 50%
- Potential legislative pressures - review of OTC derivatives market underway (US and EU)
- Impact on FX market unknown, but two areas affect CLS:
 - **Transparency** - trade repositories endorsed for OTC derivatives
 - **Clearing** - advocating central counterparties to eliminate counterparty risk for FX derivatives – which products still unclear
- **Acknowledgement that Settlement risk** remains the biggest risk in FX – **CLS mission**



FED commitments to address risk and efficiency

- Commitment to Improve & Enhance the infrastructure and Risk Management in Global FX and Derivatives Market through initiatives and collaboration
- To meet these commitments participation from both buy-side and custodian bank communities is required
- Major FX dealers agreed commitments to the Fed in April 2010:
 - Risk Reduction
 - Metrics Reporting
 - Electronic Processing
 - Increased market participation
 - Greater use of CLS Settlement Services
 - This includes using new CLS services such as the NDF and Option settlement

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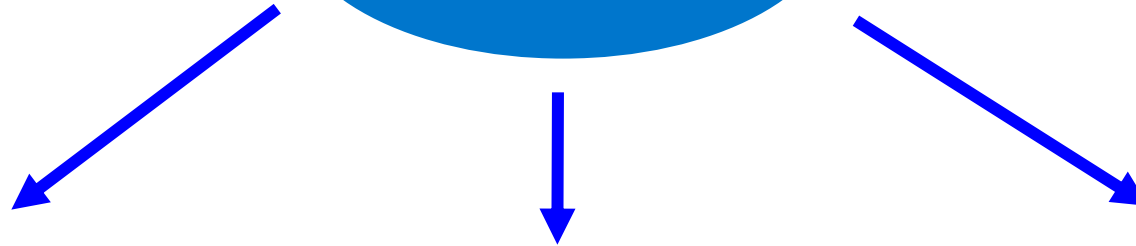


CLS focus in 2010

- Extending the coverage of PVP settlement
 - Additional settlement session for Same Day Settlement – N America
 - Accelerate the take on of additional currencies
 - Expand participation
- CLS Aggregation for high volume FX
- Multi-currency settlement of other financially traded instruments
- CLS working with FX industry to address potential new regulatory requirements for the FX market
 - Development of CLS Trade Data Provision
 - Support any industry/legislator request for clearing



Driving industry collaboration



FX industry

- Working group established
- Response to clearing
- CLS Market Data

Legislators

- Briefings to European Commission and US congress

FX committees

- Contribution to industry review papers
- Coordinated effort to widen participation

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