



# CLS Settlement



a profile of current and future products

[www.cls-group.com](http://www.cls-group.com)

## ABOUT CLS

CLS Settlement from CLS Bank International (CLS Bank) eliminates settlement risk and provides CLS Bank Members with significant STP and trading benefits. Banks, corporations, non-bank financial institutions and investment funds may share in these benefits, settling the payments related to their FX instruments through CLS Bank Members.

Payments in fifteen currencies are currently eligible for settlement through CLS Bank. For instructions related to an instrument to be eligible for settlement by CLS Bank, all related payments must be denominated in a CLS Bank eligible currency.

## CLS SETTLEMENT TODAY

CLS Bank currently settles payment instructions related to trades executed in four main instruments: spot, forwards, option exercises and FX swaps. For more information about how the current service works, please refer to the CLS publication 'about CLS' and to the respective guides for banks, corporates and funds.

## FUTURE PRODUCTS

- CLS Settlement for non-deliverable forwards (NDFs)
- CLS Settlement for OTC FX options/premiums

## FUTURE PRODUCTS

The current end-to-end trade process from execution to settlement for non-deliverable forwards (NDFs) and FX options is less efficient than it could be and is reported to cost as much as four times that of a typical foreign exchange transaction. Manual processes, lack of standardisation including legal documentation and gross settlement of individual cash flows contribute to higher processing and settlement expense. Once settlement of these instruments is implemented in CLS Bank, the related cash flows will be included in CLS Bank's multilateral netting process, as provided by the existing service and the result will be to minimise net cash funding.

CLS Bank plans to offer a complete end-to-end service from execution to settlement of cash flow positions for NDF transactions and FX option premiums.

Manual intervention will be eliminated from the process for these two instruments. CLS will provide complete all-in-one straight through processing with considerable cost benefits, and an accompanying standard legal framework to govern the process.

### CLS Settlement for NDFs

CLS Settlement will create a robust, straight through processing infrastructure for the processing and settlement of NDFs, and brings together several current initiatives in the NDF market. It will use the new SWIFT® standards, supported by EMTA® currency templates. NDFs will be subject to the same risk management framework as the current products eligible for CLS Settlement, allowing benefits to be gained through matching in CLS, and specifically eliminating the current long form confirmation process.

### CLS Settlement for FX option premiums

CLS Settlement will involve the matching and confirmation of FX options, including the settlement of the premium. FX option matching within CLS will provide the opportunity to remove external matching processes and create full automation. As CLS will also match the option premium payment, the premium will be included in the CLS settlement process, thereby eliminating the individual payment flows. Firms using CLS Settlement will derive significant automation and cash netting benefits in an environment of increasing volumes and operational risk. CLS will initially offer this service for vanilla options, currently executed using the MT305.

## HOW IT WORKS

### NDFs

On trade date, the counterparties execute the NDF. These instructions are forwarded to CLS for matching. On fixing date, the counterparties fix the rates, and the two notifications of the fix are likewise forwarded to CLS for matching. Each fixing notification is linked to the original NDF instruction and the two fixing notifications are linked to each other, as shown in Figure 1.

Once a four-way match is achieved, the difference denominated in the settlement currency is included for settlement across the books of CLS Bank in the relevant Members' CLS Bank accounts on value date. A similar process is also undertaken when a third party is involved, with the Member managing the submission of instructions and related payments to CLS as illustrated in Figure 2. The Member will also provide real-time trade information to each third party.

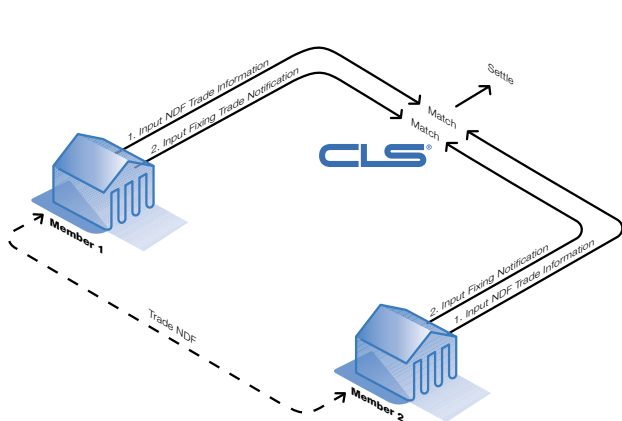


Figure 1: Member to Member

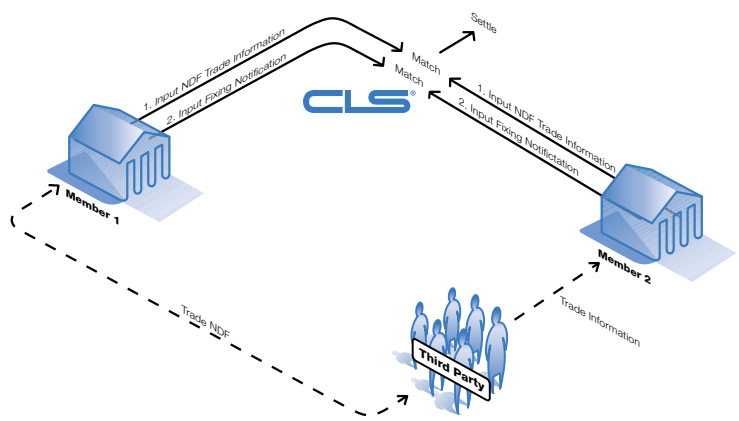


Figure 2: Member to third party

### FX Option premiums

CLS will match and confirm options and the associated premiums settling the resulting cash flow payable in an eligible currency in a similar way to the current CLS Bank settlement process. Figures 3 & 4 demonstrate the transaction flow. For the first time the OTC FX options

market will have a comprehensive settlement solution, allowing a reduction in costs by up to two thirds. The Member will also provide real-time trade information to each third party.

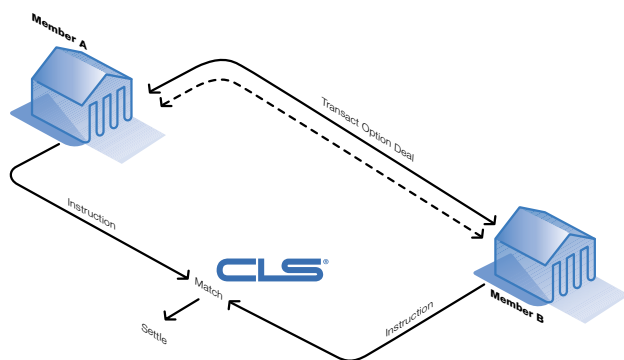


Figure 3: Member to Member

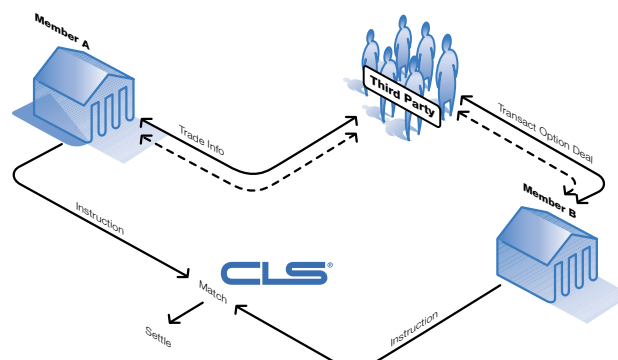


Figure 4: Member to third party



## BENEFITS

**By providing a complete end-to-end process from execution to settlement of NDFs and FX option premiums, CLS will deliver the following benefits:**

- Standardisation and automation of confirmation and matching allowing for the removal of duplicate flows;
- Removal of NDF long form confirmation, providing a legal governance structure eliminating the need for bilateral negotiation – a ‘complete package’ for NDFs for the first time;
- Significantly increases the level of market automation for these types of transactions;
- Consolidates cash funding and maximises the netting benefits of CLS Settlement;
- Extends CLS Bank’s high standards of resiliency to a broader range of markets;
- Convergence of FX instruments into a “single pipe” for processing settlements;
- Reduced operational and payment/settlement risk improves operational risk management under Basle II;
- Extends the range of services offered to CLS third parties;
- Offers the opportunity to rationalise nostro networks.



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**Visit the CLS website for more  
detailed information on becoming  
a third party and for links to CLS  
service providers.**

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