

CLS®

# brief

ISSUE 11 Spring 2006

## CLS FOR CORPORATES: THE NEXT REVOLUTION

Roland Merkelbag,  
ABN AMRO

## TEMPTING THE STRANGERS

Jim Ford,  
RBS

## FAILURE IS NOT AN OPTION

Olaf Ransome,  
Credit Suisse



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Printed in the UK.

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### Welcome to the Spring 2006 edition of *CLS Brief*,

the first since my appointment as Chief Executive Officer. This edition focuses on corporate participants. Our core objective at CLS is to ensure that unit costs are on a downward trajectory by encouraging volume growth. We can do this by encouraging participation through raising awareness of the value of CLS

participation to different market segments, and by enhancing the CLS service itself through new products.

In this issue we are addressing the benefits that corporates can experience with CLS. Roland Merkelbag from ABN AMRO provides an overview of these benefits and reviews the value that Unilever has derived from participation.

Jim Ford from Royal Bank of Scotland reviews the third party market in general and assesses how potential users can be convinced to join CLS. Finally, Olaf Ransome from Credit Suisse looks at the challenge of trade traffic control and offers an insight into how his organisation has used business activity monitoring to improve its capability.

The next issue of *CLS Brief* will focus on the fund sector, and as always we would welcome contributions on this subject from readers. Please contact [corpcom@cls-group.com](mailto:corpcom@cls-group.com) with your suggestions.

Rob Close, CEO, CLS Group

## CLS NEWS

### More corporates join CLS

Two major corporates have joined as third parties; GlaxoSmithKline (GSK) and Unilever. GSK began using CLS in December 2005 through HSBC and the solution is already live in GBP, USD, Euro and CAD. It plans to implement a further seven currencies by the end of April 2006.

Read more about Unilever on page 4 where Roland Merkelbag discusses the benefits of CLS for the corporate market.

### Volume and value records broken

On 15 March, CLS Bank set a new record for the value of payment instructions settled in one day – **US\$ 4.654 trillion**. During September 2005 the total value of instructions settled by CLS Bank since launch reached US\$1 quadrillion (a thousand trillion).

The record for the volume of payment instructions settled in one day was broken on 17 January. CLS Bank settled 502,384 payment instructions the day following the Martin Luther King US public holiday. This was the first time that the volume of payment instructions settled has exceeded 500,000 in one day.



### TowerGroup survey reveals growing benefits of CLS

Research from TowerGroup predicted that CLS Bank will continue to grow market share, and will be settling 83% of total Member volume by the end of 2007. The study also predicted that the percentage of third parties settling over 50% of their FX volume through CLS Bank is set to rise to 81% by the end of 2006.

In addition to significant back office benefits, CLS continues to have an impact in many areas of the front office. Eighty-two per cent of Members reported changes to the credit approval process, with 29% of Members eliminating settlement limits completely for CLS counterparties. Thirty-three per cent of Members and 45% of third parties also report changed trading practices as a result of CLS: 69% of Members reporting a change favoured

CLS counterparties, and 56% increased spreads for non-CLS counterparties. Seventy-four per cent of third parties reporting a change also favoured CLS counterparties, and 53% received larger trading lines.

### New Director of Relationship Management at CLS

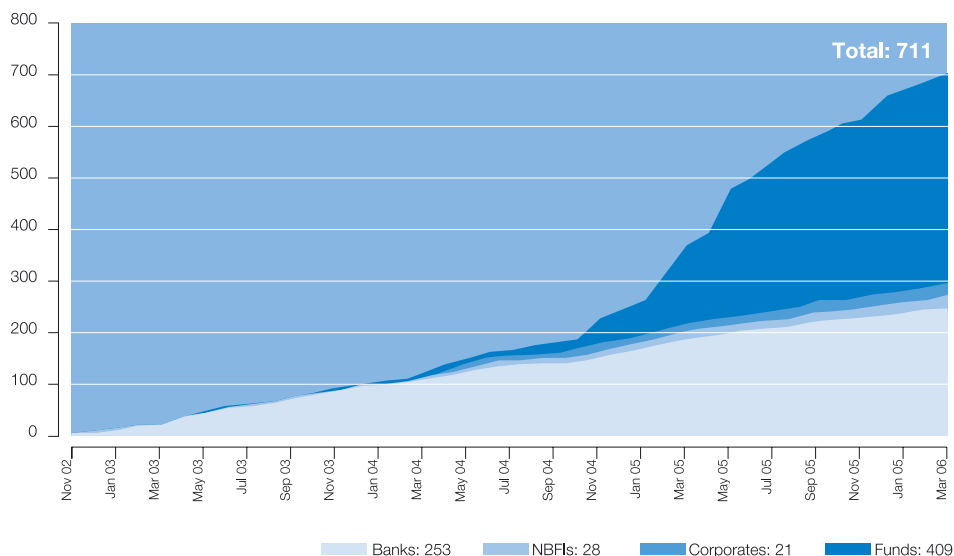
CLS has appointed Rachael Hoey, formerly Director, Global Product Management, Treasury Services, for RBC Global Services as the new Director of Relationship Management, replacing Tom Newman who retired in January.

Over her career Rachael has held various international roles in general management, as well as marketing and business development roles with institutions including Royal Bank of Canada and Chase Manhattan Bank.

### Fund participation drives third party growth in CLS

The number of third parties and funds using CLS has now exceeded 700. Three hundred and two banks, brokers and corporates and a further 409 funds are now using CLS Settlement.

#### Growth in third parties



### CLS Events

Look out for CLS at the following events:

**ISIPS** – London, 22 May

**15th Annual Securities Operations Conference** – New York, 6 June





## CLS for corporates: the next revolution



**Roland Merkelbag**  
Senior Product Manager  
CLS & Settlements  
**ABN AMRO**

More than three years after go live, the establishment of CLS as the new standard of FX settlement seems a definite “fait accompli”. It is all the more remarkable though that the concept of CLS and the benefits it can offer are still largely unknown to other players in the FX arena, such as the corporate sector. Those corporates that were aware of the initiative have for the most part preferred to let the system establish itself in the financial industry before deciding whether or not to use it themselves.

There are now signs though that this situation is rapidly changing. As the buzz starts spreading in the market, corporations are starting to get curious and are asking their banks about the potential benefits of the system for them.

A recent corporate addition to the global CLS community is the global consumer goods giant Unilever, which went live as a third party in February.



### What's in it for corporates?

The substantial reduction in operational processing, increased reconciliation speed, dramatically reduced error rates and the increased availability of credit lines represent the most appealing benefits for the corporate market.

Gerard Tuinenburg, Operations Accountant Treasury Control at Unilever, said:

*“After the elimination of settlement risk, it is in the area of operational efficiencies that we have managed to gain the most benefit. Even though we are not connected via SWIFT we still have a fully integrated connection via our provider, enabling us to reflect the status of trades in our treasury system. Furthermore we no longer have manual netting arrangements in place and have stopped the process of confirmation exchange entirely.”*

Frans van Rosmalen, Treasury Controller at Unilever, added:

*“Various publications about CLS made us aware of the potential benefits CLS could bring to our FX process. The presentations given by our provider fully supported our views that CLS should become an integral part of our processes.”*

There has only been a handful of corporate early adopters of CLS, but interest has grown significantly in the last year. As the majority of corporates are not connected to SWIFT it is important for them to consider a provider with the ability to offer alternative submission methods, such as web based front-end systems or communication server solutions. Also choosing a provider that can incorporate CLS treasury accounts into a new or existing cash pool structure will further ensure a completely smooth funding process.

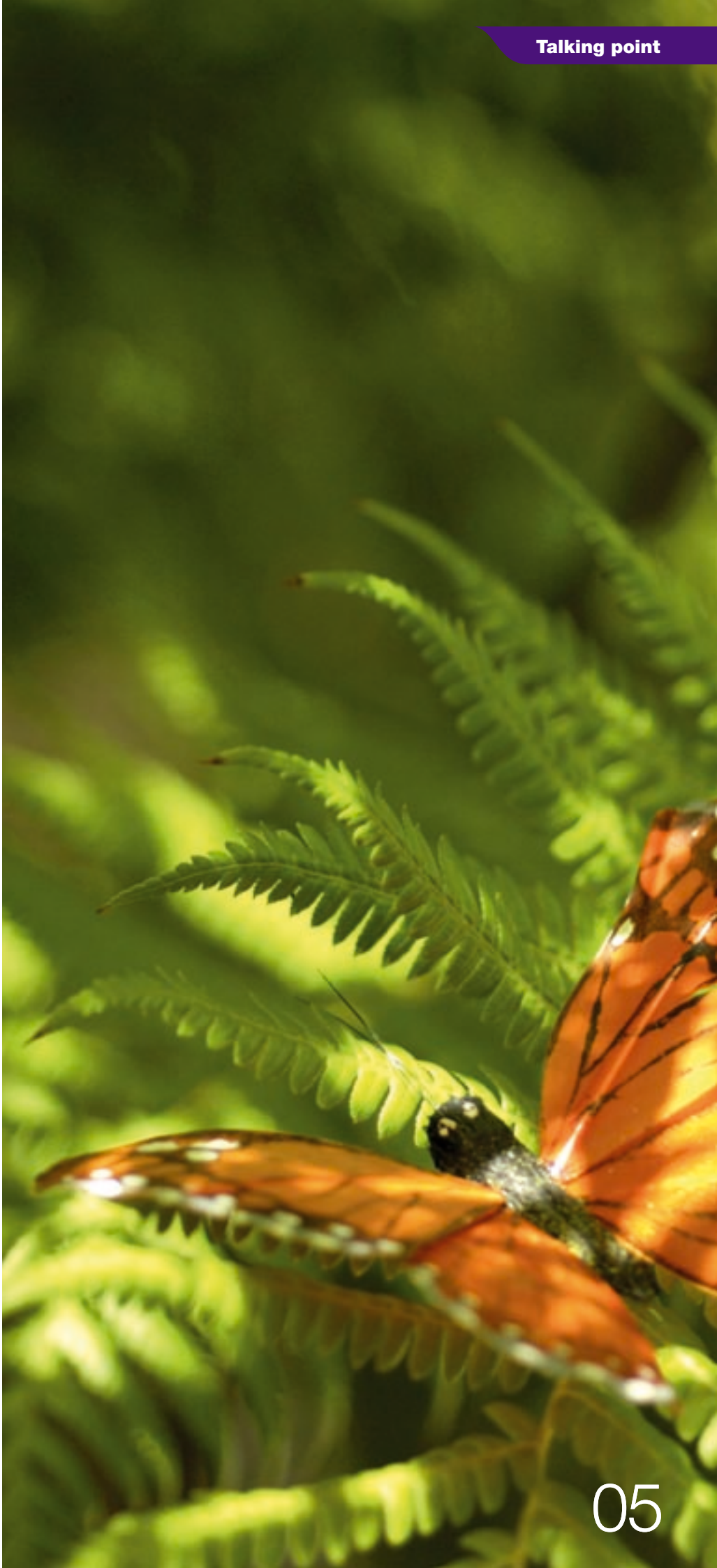


“Substantial reduction in operational processing, increased reconciliation speed, dramatically reduced error rates and increased availability of credit lines”

#### **And how does corporate participation affect the banks and brokers?**

The adoption of CLS beyond the borders of the banking industry will benefit not only those new entrants but also the banking community itself. It will gradually provide for a sound global financial system enabling banks to eliminate settlement risk for their corporate counterparties, leading to increased trading opportunities due to freed up credit lines.

Banks are likely to be approached more and more by corporates asking if they can settle with them through CLS or if they can offer them third party services. CLS can be very useful to retain and strengthen relationships with these clients, however developing and maintaining third party capabilities does not come cheap and experience has shown that it is a highly competitive market that is bound to consolidate in the coming years. Banks that find themselves challenged by these considerations may want to consider using the white-labeled, fourth party services which are on offer from a few providers.



“In summary, there is still considerable mileage in the third party market ... there is still business to be won”



# Tempting the strangers



**Jim Ford**  
Senior Director  
Global Product Sales  
Global Banking Services RBS

At one level third party business has been a great success story for CLS with over 700 users now live. However, a significant proportion of this market still shows no sign of joining. Corporates and brokers, for example, still account for a very limited percentage of the CLS community. In the case of banks there has been limited or zero take-up in areas such as the Middle East, Latin America and South East Asia. Even in Europe the success rate has not been complete with banks in Mediterranean countries showing very little desire to join the system.

This is despite clear anecdotal evidence of very strong marketing efforts in almost all of these regions. So why are a fair proportion of organisations so reluctant to join CLS given the substantial benefits that it offers? Below are some of the reasons behind the decision not to participate in CLS:

- **Ineligible currencies** – In a number of countries the vast majority of trades are done against a local ineligible currency. This severely limits the benefits to be gained from risk reduction and operational savings.
- **Lack of regulatory pressure** – There has been very little pressure from regulators on the banking community to join CLS. This has been an interesting outcome given that CLS was created in response to regulatory concerns. However regulators will argue that it is very difficult for them to favour a privately owned commercial organisation no matter what its *raison d'être*.
- **Lack of market pressure** – There has been very little market pressure from existing CLS Members. Despite dire warnings in the beginning, there has been no two tier pricing market for FX trading or restricted trading with non-CLS counterparties.
- **Technology change/cost** – CLS itself can require a number of major system changes. Given the lack of pressure mentioned above, it can be difficult to justify the investment costs.

Does this mean that there are no more mountains to climb in the third party market? Should Settlement Members simply be

happy with existing wins and concentrate on defending what they have already got? On the contrary, I would argue that third party providers should be promoting the following developments to potential third parties:

- CLS is still seeking to expand further into other currencies. Chile, Mexico and Israel are just some of the countries whose currencies are being considered. Bear in mind also that a number of countries in Eastern Europe are seeking to join the euro over the next two years meaning that most of their local currency trades will become CLS eligible. Of course this does mean that some of those banks will become Settlement Members. However, others will definitely retain a third party status, making them ideal targets.
- CLS is also exploring new product areas, which may attract the interest of third parties. The advent of non-deliverable forwards for example by 2007 may prove very attractive to banks in Latin America. Looking further into the future the proposed services for non-CLS currencies may also be a catalyst for third party involvement.
- While there is no real pressure from the market on potential third parties to join CLS, there is evidence that this could change. In the 2005 Tower Group survey, almost 70% of third parties indicated that trading with CLS counterparties has considerably increased. This figure is estimated to rise to 81% during 2006. Banks may well begin to feel that operating two settlement processes is a costly strategy and those settling outside CLS will suffer as a result.

In summary, there is still considerable mileage in the third party market. Quite apart from new organisations, many existing third parties may well review their current providers in the near future, offering further business opportunities. Add to that, the fact that the number of serious CLS third party providers has dwindled over the last four years and it can be seen that that for those players willing and able to commit resources there is still business to be won.





# Failure is not an option!

## BCP in a CLS world



**Olaf Ransome**  
 Head of Product Development & Support  
 Transactions Services & Solutions  
 Credit Suisse

At its core, CLS has two challenges; funding and trade traffic control. The industry has got the former sorted. Even on a bad day, 'do it all manually' is manageable. The real challenge of CLS is trade traffic control; collect trades, send to CLS, monitor progress.

The world of air traffic control has a safety valve; have planes land somewhere else and stop new ones taking off. In the world of FX, there is no way to stop trading or easily send trades elsewhere. With volumes steadily increasing, Credit Suisse identified this as a key area for investment in systems and controls. At the business end we came up with such a clear vision that our IT Engineers willingly sponsored the work. The results are worth sharing, because in our industry it takes two to settle a trade.

CLS processing is complex and involves multiple systems: trade feeds, the CLS application, messaging middleware, adapters and gateways. We have had several occasions where clients have told us something is wrong before we have noticed. The types of problems have always been subtle and never the same and on occasion have caused significant delays in sending in trades to CLS; in turn creating enormous uncertainty for our client and their counterparts. At first we were convinced there were deficiencies in the third party CLS application we were using. However, we realized that the problems could stem from various areas of our infrastructure and what was needed was end-to-end monitoring of the whole ecosystem. Though we cannot prevent system errors, we can minimise the time it takes to know we have one and minimise the resulting pain.

Table 1 summarises our needs. Most importantly, we did not want to be like a pilot on a Jumbo jet with a dashboard full of gauges. Instead we needed a system that would clearly notify us of any unexpected

**Table 1**  
Monitoring Requirements

Theme	Comment
Incessant	Works all the time. Not the night patrolman doing the rounds, but the eagle-eyed scout constantly on the look-out
Instant	Immediate notification. No need to refresh the browser
Intelligent	Understands what is normal and what is not. Is this the right amount of traffic for this connection, for this time of day
Independent	Takes standard corrective actions based on rules we give it
Idiot Proof	Unambiguous graphics

<p><b>Bad</b></p>	<p><b>Good</b></p> <p>No Issues to Report</p>	<p><b>Bad</b></p>	<p><b>Good</b></p> <p>Late Payment Event </p> <p>Drill Down </p>
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**Table 2**  
Macro Controls

Round trip 95%/200 seconds met	Matching for fastest 75% of trades 5 mins or under	Conclusion
True	True	Any minor delays we might have are irrelevant because the slowest 25% of trades are being submitted by a combination of counterparts and agents that are very slow
True	False	Any minor delays we might have are irrelevant because the market is generally slow
False	False	We may well be the cause of slow matching and need to take action

conditions. There is a formal name for this, Business Activity Monitoring (BAM), and in the world of IT engineering it is the new, new thing.

Using a BAM tool from an European vendor, we now monitor every single trade flow channel through every separate process step and differentiate between volumes at peak and off-peak times for each of our submitting locations and third parties. Now we quickly identify bottlenecks. There are two key figures relating to overall trade flow performance we can monitor and manage to ensure consistent performance: 'Round Trip Time', i.e. the lapsed time from when a single trade is first collected in our CLS application to the time we get the

first status update back from CLS. 'Matching time' is the time lapsed from when a trade is collected to the point where the 'matched' status is received from CLS. This allows us to have a picture of relative performance:

If you are interested to hear more about what we have done, please feel free to contact us.

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# CLS FX Market Monitor

**Do you know your FX spot ranking by currency pair values?**

**Do you know how efficient you are compared to other Members in CLS?**

CLS FX Market Monitor tells you all this (and more) based on real market data rather than just another survey. This information could be available to you today if you subscribe.

A sample report is shown below. This report shows a Member bank's ranking by each currency pair each month.

Email [prodman@cls-services.com](mailto:prodman@cls-services.com) for information on how to subscribe to CLS FX Market Monitor.

Currency Pairs	FX Spot US\$ Value	Rank	Currency Pairs	FX Spot US\$ Value	Rank	Currency Pairs	FX Spot US\$ Value	Rank
EUR/USD	193,706,119,181	9	CAD/CHF	113,446,195	10	GBP/JPY	1,435,365,626	9
USD/JPY	44,168,914,491	16	GBP/CAD	91,909,254	25	AUD/JPY	462,388,057	9
GBP/USD	36,891,047,656	14	NOK/SEK	87,205,799	21	CHF/JPY	317,427,771	10
AUD/USD	26,154,656,735	12	NZD/CHF	67,581,058	7	AUD/EUR	676,440,632	10
USD/CAD	23,150,055,231	19	GBP/CHF	64,952,495	42	CAD/CHF	113,446,195	10
USD/CHF	20,133,414,919	12	AUD/NOK	58,922,379	1	NZD/USD	9,374,762,520	11
EUR/GBP	14,078,387,920	12	NZD/NOK	48,023,603	2	EUR/GBP	14,078,387,920	12
NZD/USD	9,374,762,520	11	GBP/SEK	30,617,664	20	USD/CHF	20,133,414,919	12
EUR/JPY	8,665,785,275	23	GBP/SGD	30,587,702	3	AUD/USD	26,154,656,735	12
EUR/CHF	4,411,315,553	20	EUR/ZAR	29,825,384	24	AUD/NZD	584,896,201	12
EUR/SEK	3,050,816,609	18	EUR/NZD	27,957,105	15	JPY/SGD	6,496,759	13
USD/SEK	2,665,360,958	17	NZD/CAD	25,899,222	8	GBP/USD	36,891,047,656	14
EUR/NOK	2,558,701,687	16	CAD/SEK	13,380,204	4	EUR/NZD	27,957,105	15
USD/DKK	2,443,770,767	4	JPY/SGD	6,496,759	13	USD/SGD	1,951,007,124	15
USD/SGD	1,951,007,124	15	GBP/NZD	6,118,083	18	EUR/NOK	2,558,701,687	16
USD/NOK	1,738,340,163	7	AUD/NOK	58,922,379	1	USD/JPY	44,168,914,491	16
GBP/JPY	1,435,365,626	9	NZD/JPY	482,891,730	2	USD/SEK	2,665,360,958	17
USD/ZAR	1,338,836,647	20	NZD/NOK	48,023,603	2	GBP/NZD	6,118,083	18
USD/HKD	1,078,959,415	28	CAD/JPY	868,695,566	3	EUR/SEK	3,050,816,609	18
CAD/JPY	868,695,566	3	GBP/SGD	30,587,702	3	USD/CAD	23,150,055,231	19
EUR/DKK	789,330,475	27	AUD/CAD	327,972,503	3	EUR/JPY	8,665,785,275	20
EUR/CAD	783,402,747	7	USD/DKK	2,443,770,767	4	USD/ZAR	1,338,836,647	20
AUD/EUR	676,440,632	10	CAD/SEK	13,380,204	4	GBP/SEK	30,617,664	20
AUD/NZD	584,896,201	12	AUD/GBP	243,269,163	7	NOK/SEK	87,205,799	21
NZD/JPY	482,891,730	2	EUR/CAD	783,402,747	7	EUR/CHF	4,411,315,553	23
AUD/JPY	462,388,057	9	NZD/CHF	67,581,058	7	EUR/ZAR	29,825,384	24
AUD/CAD	327,972,503	3	USD/NOK	1,738,340,163	7	GBP/CAD	91,909,254	25
CHF/JPY	317,427,771	10	NZD/CAD	25,899,222	8	EUR/DKK	789,330,475	27
AUD/GBP	243,269,163	7	AUD/CHF	199,384,682	8	USD/HKD	1,078,959,415	28
AUD/CHF	199,384,682	8	EUR/USD	193,706,119,181	9	GBP/CHF	64,952,495	42

