

CLS

about cls 

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







## CLS : PROFILE

CLS<sup>®</sup> (Continuous Linked Settlement), offered by CLS Bank International (CLS Bank), eliminates the risk associated with foreign exchange settlement across time zones. With CLS, both sides of an FX trade are settled simultaneously on a payment versus payment (pvp) basis, making settlement through CLS Bank final and irrevocable.

The CLS concept was the industry's response to increased regulatory concern about settlement and systemic risk associated with the growth in FX value traded daily. It is the first global banking settlement system that extends the finality of domestic Real Time Gross Settlement (RTGS) systems to the global market.

CLS changes the way the financial services industry operates by linking fifteen of the world's central banks and 58 of the world's leading financial institutions in a unique global real-time

settlement system. CLS currently settles in 15 currencies: Australian dollar, Canadian dollar, Danish krone, euro, Hong Kong dollar, Japanese yen, Korean won, New Zealand dollar, Norwegian krone, GB pound, Singapore dollar, South African rand, Swedish krona, Swiss franc and US dollar.

Since CLS launched in September 2002, it has exceeded all expectations and currently settles on average over 200,000 payment instructions each day with an average gross value of US\$2 trillion daily.



## THE CLS GROUP

CLS Group Holdings AG has two main operating subsidiaries: CLS Bank and CLS Services Limited.

### CLS BANK

CLS Bank is a special purpose Edge Act bank, located in New York City and regulated by the US Federal Reserve, which provides the CLS service. CLS Bank maintains an account at each of the 15 eligible currencies' central banks and has access to each of the related payment systems.

### CLS SERVICES

CLS Services Ltd., a company organised under the laws of England and Wales and located in London, provides technical and operational support to CLS Bank.

### SHAREHOLDERS

CLS Group Holdings AG is owned by over 70 of the world's leading financial services institutions. Between them they are responsible for more than

half of the value transacted in the world's FX market.

Each shareholder has an equal voice in the governance of the Group and each is eligible to apply membership in CLS Bank.

### SETTLEMENT MEMBERS

A Settlement Member must have proven financial and operational capability and sufficient liquidity to support its financial commitments to CLS Bank. Settlement Members can submit payment instructions for themselves and their customers directly to CLS Bank.

Each Settlement Member has a single multi-currency account with CLS Bank.

### THIRD PARTY SERVICE PROVIDERS

Third party service providers are Settlement and User Members who offer CLS services to their customers, so that the customer may achieve the benefits of CLS Settlement as a third party.



### USER MEMBERS

User Members do not have an account with CLS Bank, but are sponsored by a Settlement Member, that settles on their behalf. Each instruction submitted by a User Member must be authorised by a designated Settlement Member. This is an automated process that runs on a daily basis. A User Member submits settlement instructions for itself and its customers but the sponsoring Settlement Member is responsible for making the related payments.

### THIRD PARTIES

Third parties are customers of Settlement Members and User Members. Members must handle all instructions and funding on behalf of their third party customers since third parties have no direct access to, or relationship with, CLS Bank.

Third party customers are organisations that participate in the foreign exchange market. They will typically be banks, non-bank financial institutions or multinational corporations.

Most of the recent interest and growth in third party participation has come from the investment management industry.

There are currently 58 Member banks and over 500 financial institutions, corporations and investment funds using the CLS service.

Visit [www.cls-group.com](http://www.cls-group.com) for more information.



## HOW IT WORKS

The CLS system is an ongoing process of instruction submission, authentication and matching, with related funding and settlement. The system receives payment instructions from Members, on average within 38 minutes of the trade. These instructions are authenticated and matched, and settlement eligible instructions are maintained by the system until value date. In the event that instructions do not match, both submitting Members are notified. The status of each instruction is available to Members on a real time basis.

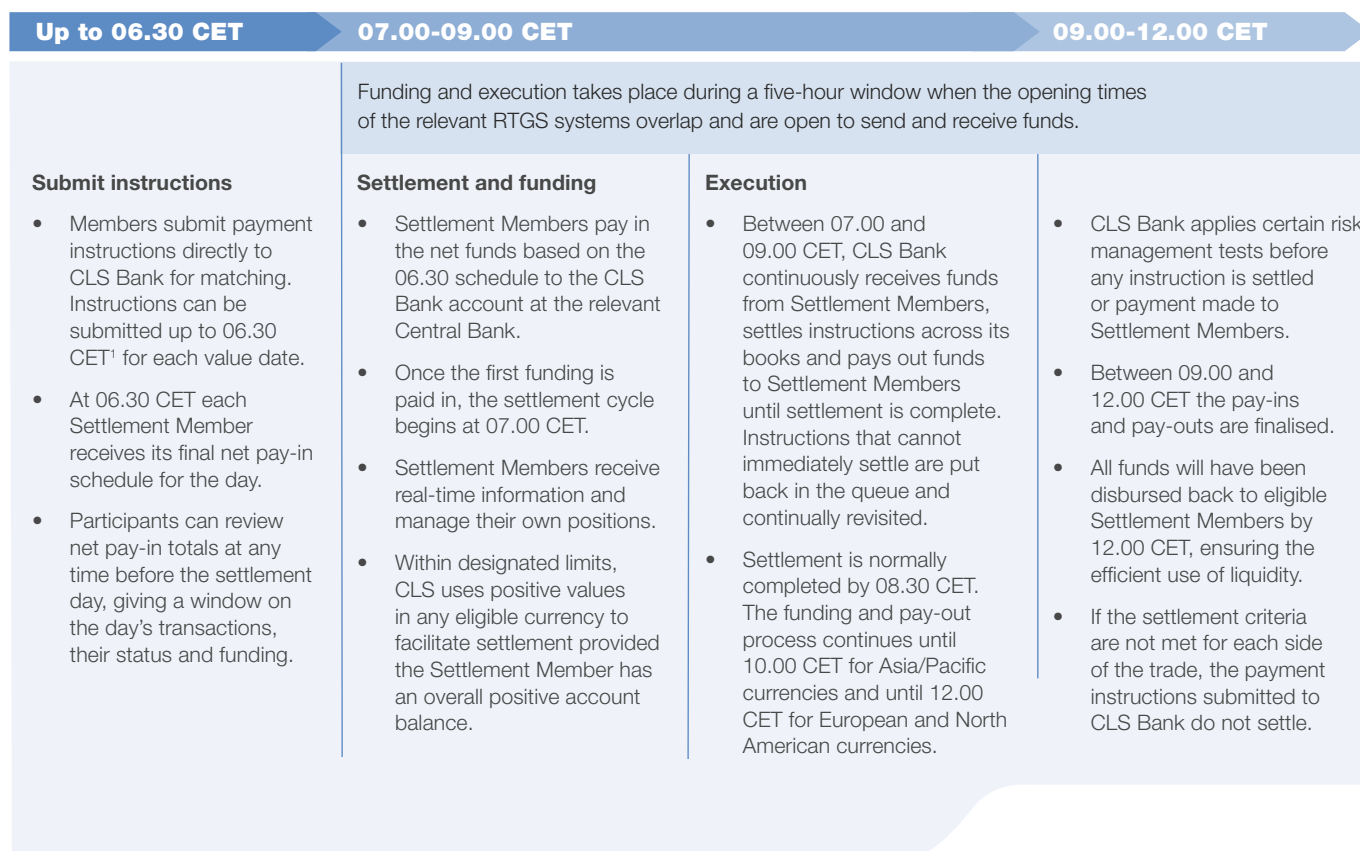
On each value date during the settlement cycle CLS simultaneously settles each pair of matched instructions by making the corresponding debit and credit entries across the Settlement Member's account at CLS Bank. This all takes place during a five-hour window when the opening times of the eligible currencies RTGS systems overlap. Working in real-time enables simultaneous settlement of both legs of an FX trade.

CLS Bank can settle payment instructions related to trades executed in four main instruments: spot, forward, option exercises and FX swaps. Daily funding requirements are determined by multilaterally netting all payment instructions. This process is achieving netting efficiencies in excess of 90% per day. This means that for every \$1trillion of value settled, the CLS community has to fund less than \$10 billion in cash.

For the trades to be CLS eligible they must meet the following criteria:

- both counterparties must be CLS-enabled
- both currencies must be eligible
- trades must be submitted and matched before 06.30 CET for CLS settlement on value date.

## CLS OPERATIONAL TIMELINE



The CLS Operational Timeline applies to CLS Settlement Members only. User/Members and Third parties settling in CLS may operate by a different timeline as agreed with their Settlement Member.

<sup>1</sup>The agreed best practice is to settle same day instructions outside CLS after 00:00 CET



## BENEFITS

### ELIMINATION OF SETTLEMENT RISK

By providing a payment versus payment (pvp) settlement process with finality, CLS protects against loss of principal in a foreign exchange trade. It eliminates the 'temporal risk' traditionally associated with cross-currency settlement.

### IMPROVED LIQUIDITY MANAGEMENT

By providing Settlement Members with a multilateral net position on which to base necessary daily funding rather than gross transaction-by-transaction funding, CLS reduces necessary funding by over 90%.

### REAL-TIME INSTRUCTION & SETTLEMENT INFORMATION

CLS Bank provides Members with real-time, online instruction submission, matching status and settlement.

information that enables them to trace settlements, eliminate errors, manage their liquidity more effectively, and reduce operational risk.

### OPERATIONAL EFFECTIVENESS

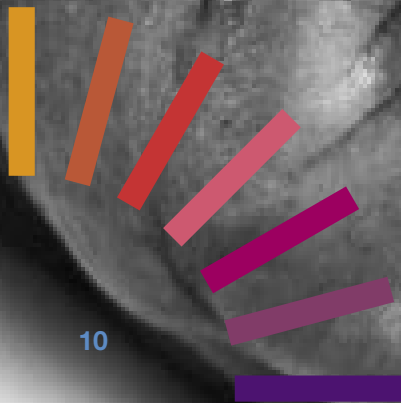
CLS matching eliminates settlement failure and resulting compensation claims. Net funding significantly reduces payment and reconciliation volumes resulting in cost and resource savings.

### EXPANDED TRADING

Elimination of daily settlement limits has increased the trading capacity of CLS Members and third parties. Both larger trades with existing counterparties and trading with new counterparties are regularly reported.









## WHY CLS?

- Get the benefits of settlement risk elimination, improved liquidity management, reduced operational costs and better efficiency.
- Benefit from expanded trading capacity with existing and new counterparties.
- Actively participate in the transformation of the FX market and ensure recognition as an FX market player.
- Be part of the industry solution that is now the standard for FX settlement.

**To find out how CLS can transform your organisation**

**Visit [www.cls-group.com](http://www.cls-group.com), email us at [corpcom@cls-group.com](mailto:corpcom@cls-group.com) or call CLS in:**

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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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