Global Payments Week 2006

FX settlement risk - the response of the global banking community: CLS Bank

5 October 2006

Rob Close
President and CEO
CLS Bank International

www.cls-group.com
CLS - The New Market Standard

- Eliminates FX settlement risk
- Fifteen currencies
- Settles on a payment versus payment (PvP) basis
- Multi-laterally nets all obligations per value date.
- Payment instructions related to trades executed in four main instruments:
  - FX spot
  - FX forwards
  - FX option exercises
  - FX swaps

*Source: BIS 2004 FX Survey*
Settlement Accounts with 15 Central Banks

- US Federal Reserve
- Bank of England
- Swiss National Bank
- Monetary Authority of Singapore
- Norges Bank
- Bank of Japan
- European Central Bank
- Reserve Bank of Australia
- Sveriges Riksbank
- Bank of Canada
- Hong Kong Monetary Authority
- Reserve Bank of New Zealand
- Bank of Korea
- South African Reserve Bank
- Danmarks Nationalbank
Processing Timeline – 24 x 5.5

00:00  06:30  07:00  09:00  11:00  12:00

On-going Submission of Instructions

00:00  06:30  07:00  09:00  11:00  12:00

Settlement

CET

In-Out Swaps input

01:00  

Funding and pay-out of net long positions

12:00

06:00

New York

18:00  00:30
CLS growth

Volume

- Sides settled (000s)
  - Sep-05 to Sep-06

Value

- $2.9 trillion daily
  - ($5.47 trillion peak day)

- 260,000 instructions daily
  - (502,384 peak day)
Growing participation

Shareholders: 69
Members: 57
Third Party Providers: 26

Growth in third parties

As at 1 September 2006
Total: 750
Growing market share

- 40% FX
- 75-83% Interbank
- 95% Member to Member
CLS Value Proposition

- Risk reduction
- Operational Efficiencies & Scale Economics
- Market growth support
- Reduced funding

Reduced funding
CLS value proposition – segment drivers

Risk reduction
- Banks
- Corporates
- Pension Funds
- Hedge / leveraged funds

Operational Efficiencies & Scale Economics
- Banks
- Corporates
- Pension Funds
- Investment Funds
- Prime Brokerage / Algo Business

Market growth support
- Banks
- Corporates
- Prime Brokerage / Algo Business

Reduced funding
- Banks
- Corporates
- Hedge / leveraged funds
Today’s changing market

- FX is an asset class – increasing buy side participation
- Programme trading growing but volatile
- Hedge Funds and Prime Brokerage driving market growth
- Strong growth in FX derivatives, e.g. NDFs & FX option premiums
- Growth in emerging markets
- Focus on cost reduction
CLS strategy overview

New Products – Δ Value delivered

Increase participation

Grow volume

Reduce unit cost
Areas of growth

- Fund management
- Other buy side
- Non-Deliverable Forwards
- FX option premiums
- Potential settlement of other traded instruments
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