

Canadian Foreign Exchange Committee

CLS overview

September 2024

cls-group.com

The information included herein does not constitute investment or financial advice and should not be relied upon as such. This document is for the exclusive use of the recipient and may not be quoted, forwarded, copied, or shared, in whole or in part, without the prior written permission of CLS Group. © 2024 CLS Group. All Rights Reserved. CLS and the CLS logo are registered trademarks of CLS UK Intermediate Holdings Ltd.





Reducing systemic risk for 90% of the CLS Settlement-addressable market

CLS Settlement mitigates settlement risk by synchronizing the settlement of payment instructions for the two currency legs of a trade.

It provides payment-versus-payment (PvP) functionality in which a party's payment instruction in one currency is not settled unless the corresponding payment instruction in the counter currency is settled.

You get paid only if you pay!

70+
settlement members

35,000+
participants around the world use our services indirectly through our settlement members



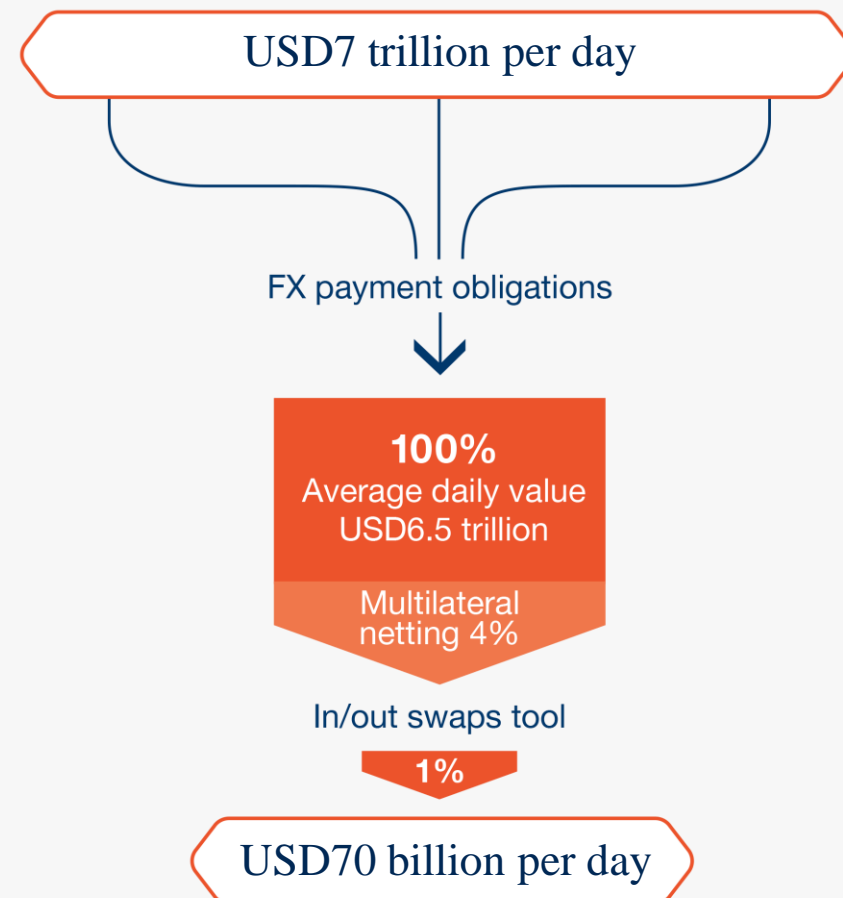


Liquidity savings

CLS offers much more than risk mitigation – it provides an efficient flow of liquidity and savings of up to 99% of liquidity requirements for settlement members.

- Settlement occurs on a gross basis, though funding takes place on a net basis
- Funding requirements for each member are based on a multilateral net calculation of the expected positions in each CLS-eligible currency
- Multilateral netting yields significant liquidity benefits for CLS settlement members, resulting in liquidity savings of approximately 96%
- Pay-in obligations can be further reduced using an optional in/out swap tool
- CLS settlement members fund only around 1% of the total value of their payment instructions on a typical day

CLS liquidity savings



Source: CLS



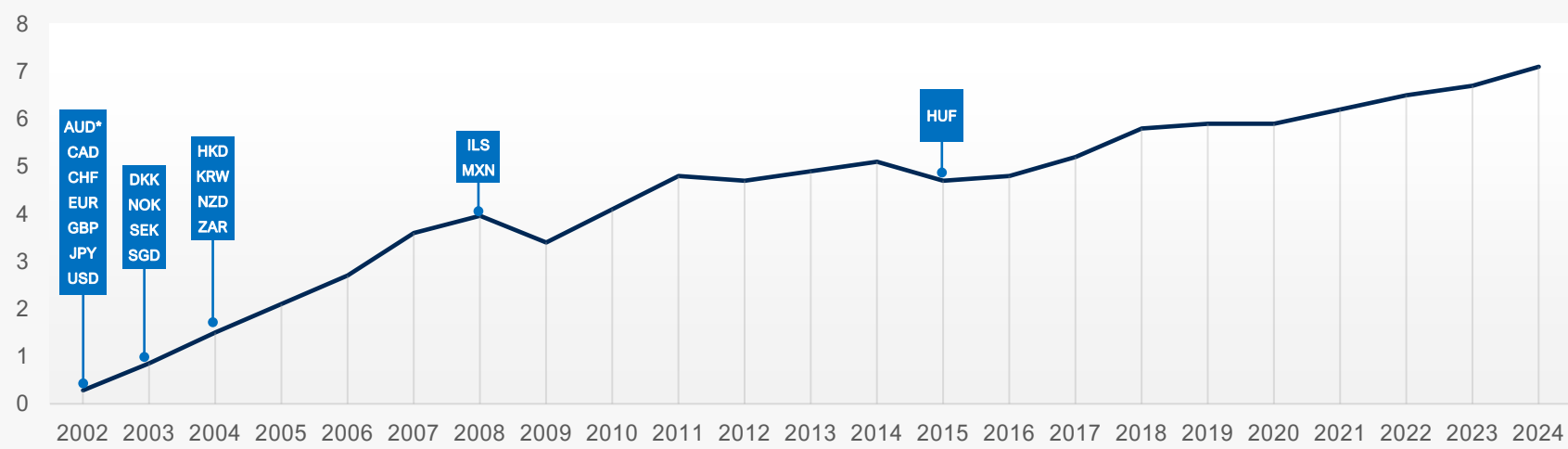
The *de facto* market standard for mitigating settlement risk

CLS began with seven currencies and 39 settlement members, settling an average of USD0.3 trillion a day.

There has been considerable growth over the years as the FX market has grown.

In 2024, the average daily values settled are over USD7.0 trillion, making CLS the world's largest financial market infrastructure and the *de facto* market standard for tackling FX settlement risk.

Growth in average daily value (USD trillion)



Value settled on a single day

USD19.1 trillion

Record

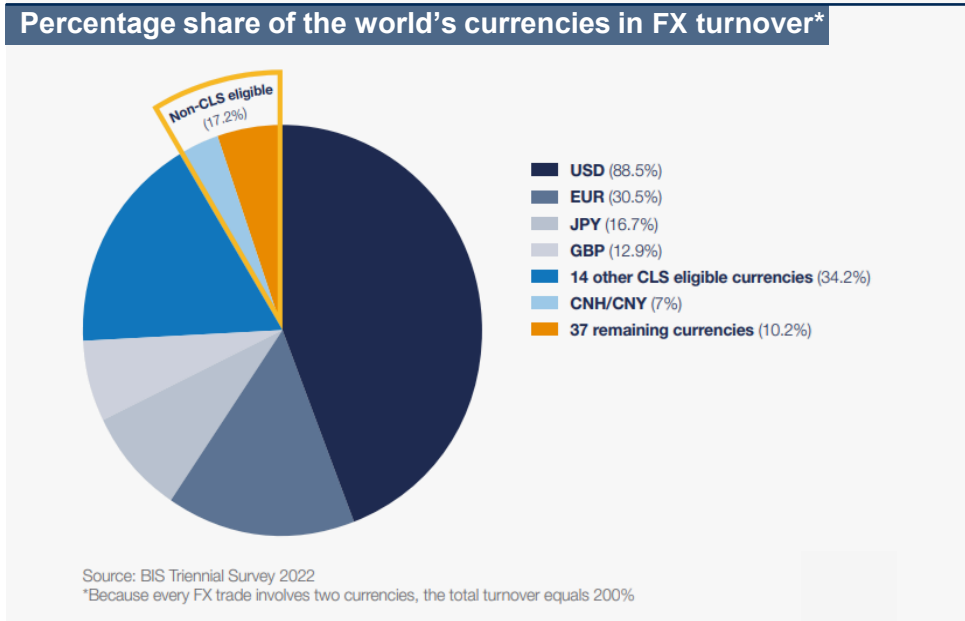
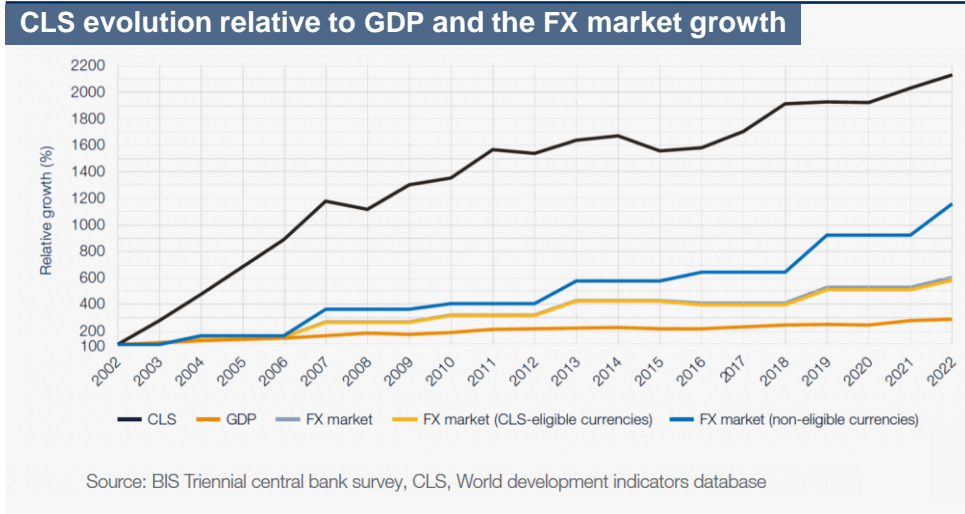
20 Jun 2024

Funding required to settle the record value was just USD78 billion, resulting in significant capital and liquidity savings for our clients and the wider FX ecosystem.

* Date when currency joined CLS
Source: CLS

The evolving FX landscape

- Over the last decade, there has been considerable growth in trading of non-CLS eligible currencies in the FX market, which now make up 17% of the world's FX turnover
- A lot of this growth has been within emerging market currencies such as the Chinese renminbi, which now makes up 7% of global FX turnover, making it the 5th most traded currency in the world
- Increased trading in non-CLS currencies creates settlement risk in the FX market that needs to be addressed





Efforts to extend PvP adoption

There are several public / private sector initiatives to expand PvP usage on a global scale

2020 – 2025

FSB's G20 Roadmap for Enhancing Cross-Border Payments established (2020):

- Work involved identifying existing challenges (speed, cost, transparency, access) and defining responses in the form of 19 building blocks

Stock-take and assessments (2021-2022):

- Public and private sector collaboration to establish foundational elements of the roadmap e.g., by defining quantitative targets for addressing speed, cost, transparency and access
- Conducted analyses and provided guidance regarding standards and data frameworks and improving access to and interlinking payment systems, liquidity bridges, operating hours and FX settlement risk

Prioritizing and implementing actions (2023-2025):

- Three-year prioritization plan and a public-private sector engagement model established
- Work is based on three interconnected themes that focus on selected building blocks
- Industry task forces drive ongoing public and private sector collaboration
- CLS is a member of the CPMI's payment interoperability and extension (PIE) taskforce

2024

Update to the FX Global Code

- A set of global principles jointly developed by central banks and market participants from 20 jurisdictions, which emphasizes FX settlement risk management and netting
- CLS is contributing to the three-year review as part of the GFXC settlement risk working group



CLNet growth

CLNet is a standardized, automated bilateral payment netting calculation service for over 120 currencies.

It is available to buy- and sell-side participants and supports FX spot, tom/next day, forwards, same-day, non-deliverable forwards and swaps.

Strong growth with an average daily netted value of USD148 billion*

Trades involving emerging market currencies accounted for 70% of total instructions in CLNet

CLNet growth Dec 2021 – Jun 2024



Peak daily netted value*

USD593 billion

Record

20 Jun 2024

The CLNet community now includes eight of the top ten global banks**

* Netted value refers to bilateral net payment amounts calculated by CLNet.

** According to the 2022 Euromoney Foreign Exchange Survey.

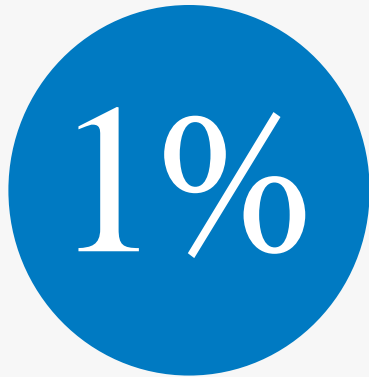
Source: CLS



Insight into the scale of the challenge

CLS analysis – impact for the buy side

Pre-US and Canadian transition



CLS analysis of its transaction data showed that a value equivalent to approximately 1% of the CLS Settlement average daily settlement value is executed on a T+1 basis, comprising volumes where one side is USD and a fund is party to the trade

Post-US and Canadian transition

Post T+1 implementation, CLS Settlement ADV has trended higher:

- 2023: USD6.60 trillion
- 2024: USD7.04 trillion (year to date)
- Jan – May 2024: USD6.98 trillion
- Jun – August: USD7.60 trillion

Market participants have emphasized, in market forums, that there has been no material impact on either FX trading or settlement

Some changes in behavior:

- Higher submissions have been noted throughout the evening (CET) including between 22:00-23:00 CET
- This could indicate potential changes in behaviour from funds in terms of execution approach and custodians supporting later cut-off times more aligned to CLS 00:00 initial pay-in schedule (IPIS) deadline

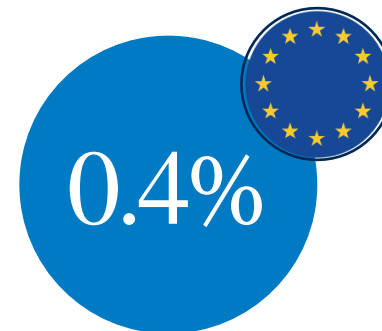
CLS will continue to monitor and analyze its transaction data



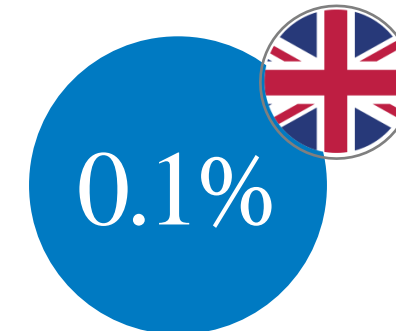
The stability of the FX ecosystem remains our top priority

What's next?

- The UK has confirmed it will move to T+1 securities settlement before the end of 2027
- The EU is considering reducing security settlement cycles and expects to announce more concrete plans later in 2024
- The impact of the UK and EU moves on CLS Settlement's ADV is expected to be negligible. This is due to the lack of any negative impact on settled values in CLS Settlement after the US and Canadian implementation of T+1 securities settlement and the smaller ADV potentially at risk once the UK and EU implement settlement on a T+1 basis
- CLS is actively working with both the FX workstream of the UK Accelerated Settlement Taskforce and the EU working group



ADV executed by
funds on a T+1
basis involving
EUR



ADV executed by
funds on a T+1
basis involving
GBP



Trusted by thousands of counterparties within the global FX ecosystem. We make FX safer, smoother and more cost effective.

Created by the market for the market, our unrivaled global settlement infrastructure reduces systemic risk and provides standardization for participants in many of the world's most actively-traded currencies.

SETTLEMENT PROCESSING DATA

To subscribe to our data or for more information please email enquiries@cls-group.com

London
Hong Kong
Tokyo

New York
New Jersey

info@cls-group.com
cls-group.com

