



The increasing importance of system interdependencies

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www.cls-group.com

CLS – the market standard

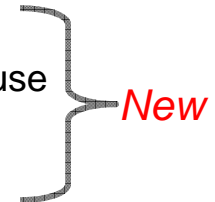


- Eliminates settlement (principal) risk for FX transactions (PvP system)
 - Settles on average 500,000 Instructions / \$4 trillion daily

- Settlement of Instructions in 17 currencies
 - AUD, CAD, CHF, DKK, EUR, GBP, HKD, ILS, JPY, KRW, MXN, NOK, NZD, SEK, SGD, USD, and ZAR
 - Over 95% of daily FX trades involve the above currencies*

- 60 CLS Bank Members in 22 jurisdictions

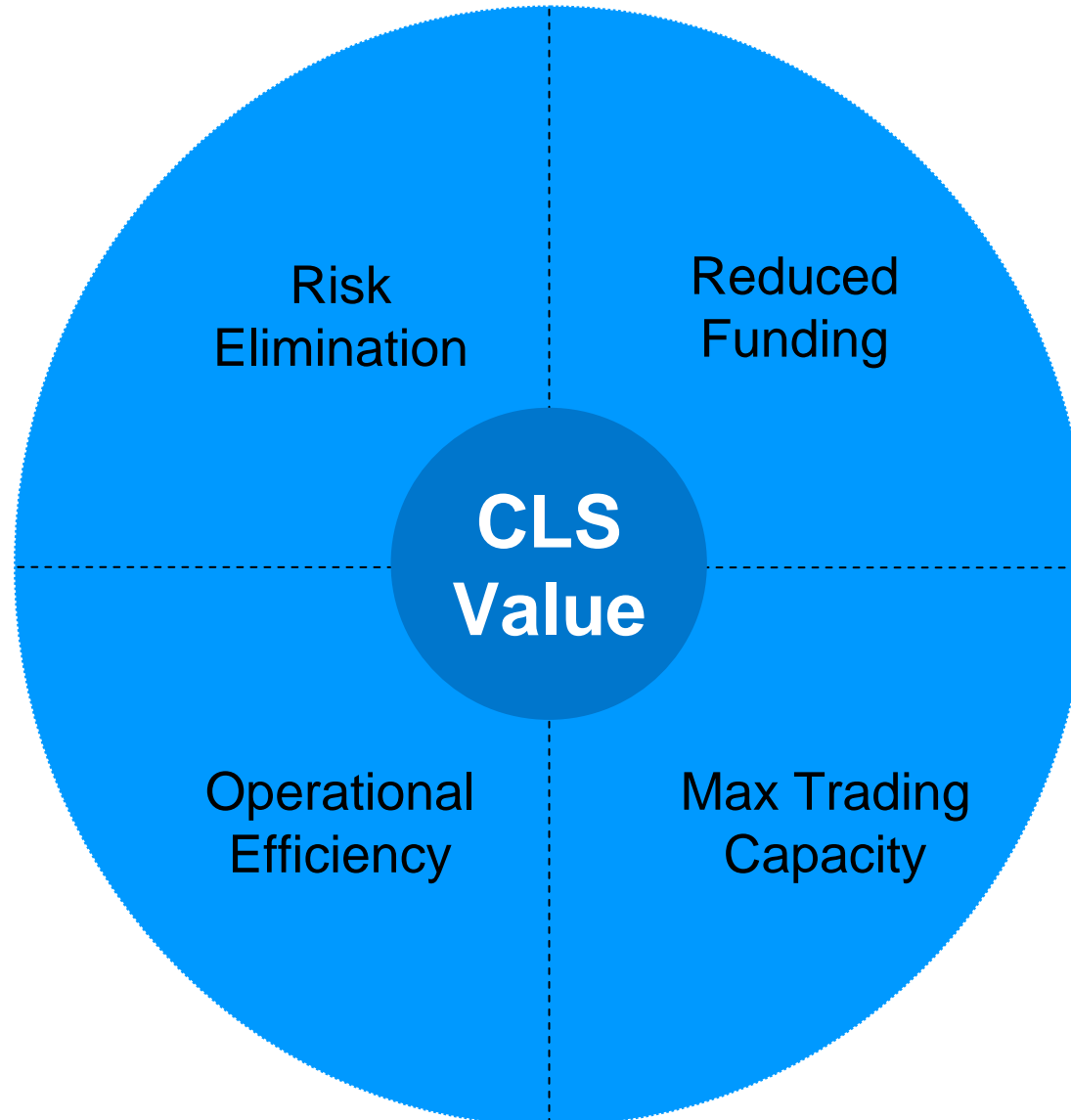
- Instructions relate to certain types of underlying transactions:
 - Two-way payments (PvP)
 - FX spots, FX exercised options and single legs of FX swaps
 - One-way payments (non-PvP)
 - OTC credit derivatives in DTCC Deriv/SERV Trade Information Warehouse
 - NDF transactions
 - FX option premium transactions – by end 2008



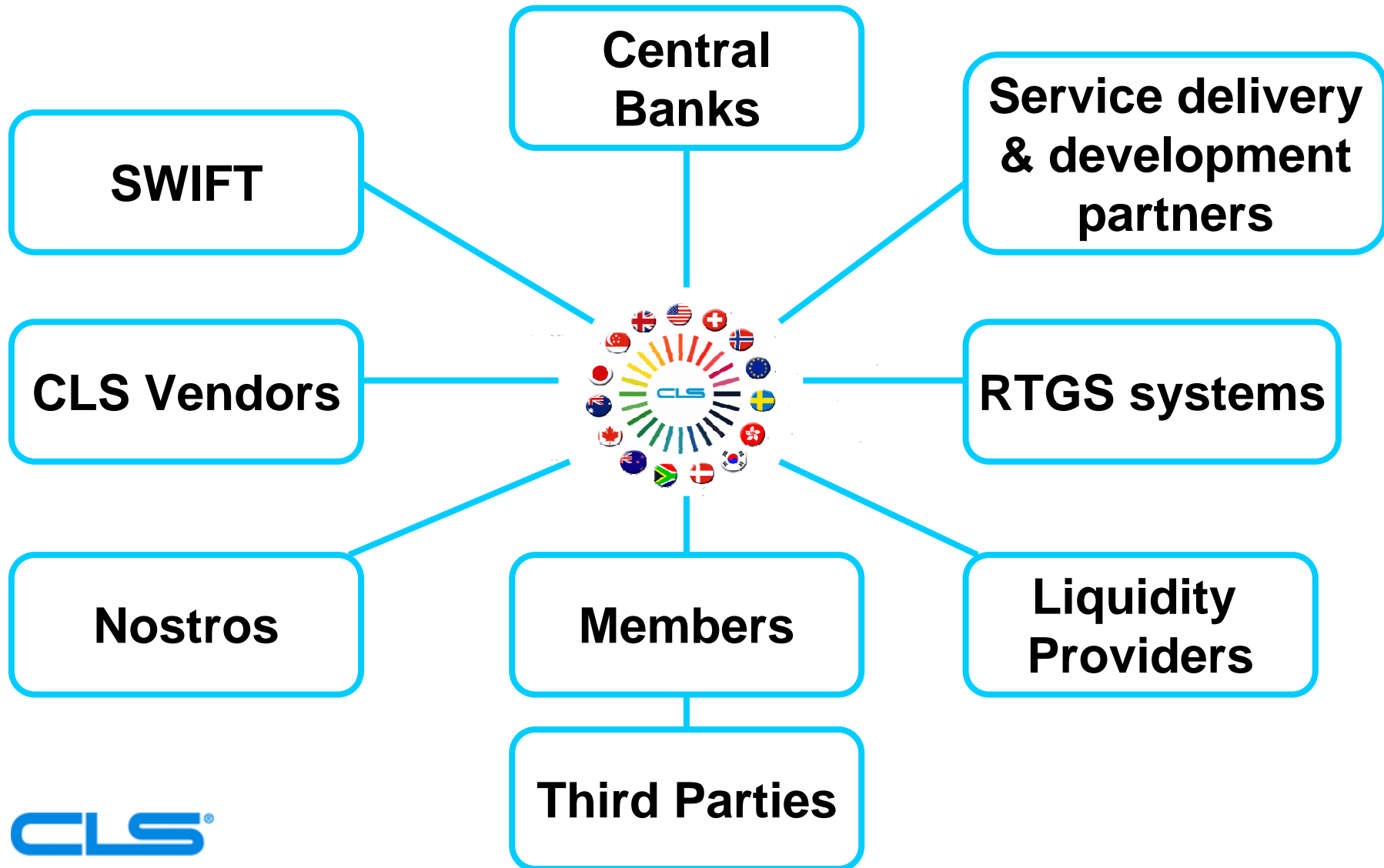
**Source: BIS 2007 FX Survey*



Value of the settlement service



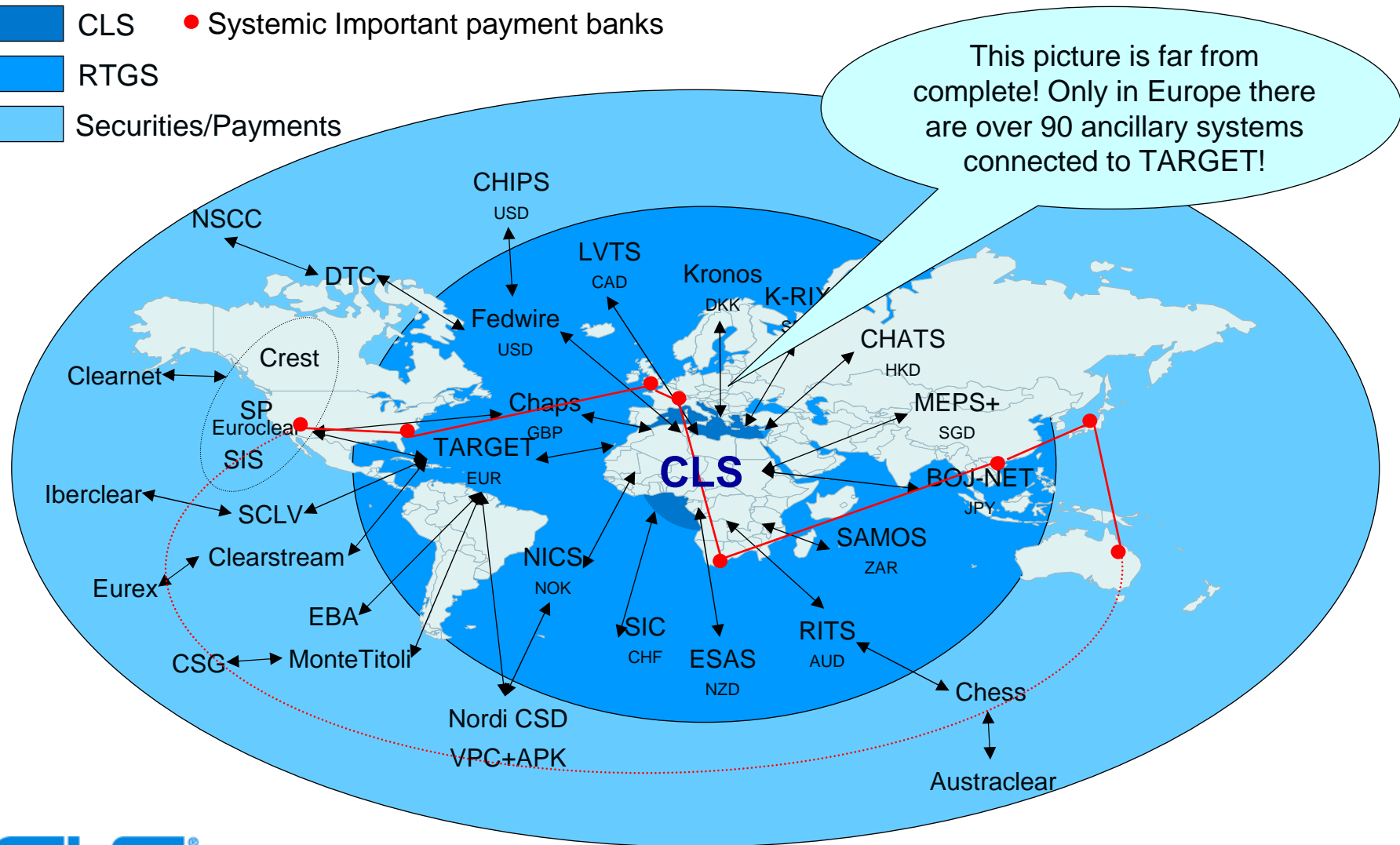
The CLS 'Ecosystem' – interdependencies



CLS: Connected in 'a network of links'



- CLS
- RTGS
- Securities/Payments
- Systemic Important payment banks





- CLS eliminates settlement risk, exploiting self-collateralization of FX
 - does not take credit exposure; not a CCP
 - does not guarantee settlement, which was market's decision in order to maximize settlement while not increasing cost through collateral requirements
- Funding is efficient on a multilateral net basis
- Short position limits control the magnitude of settlement that can occur without full funding in place
- Loss allocation mechanism
- Compliant with the *Core Principles for Systemically Important Payment Systems*



CLS Risk Management Tools



- CLS operates under a set of deadlines that provide certainty
 - Initial pay-in schedule / unilateral rescind
 - Revised pay-in schedule
 - Settlement completion
 - Funding completion

- CLS provides real-time information on the status of Instructions

- Settlement Members can be suspended from settlement

- CLS can defer the settlement of Instructions to subsequent days





- Importance of the time critical multilateral net pay-in requirements
- Therefore requires availability of liquidity and collateral
- Credit/liquidity crisis and volatile markets raised question of:
 - Contention for collateral in certain markets
 - Credit limits within nostros

CLS gives certainty in crisis



- Protects principal
- Real-time information allows for informed decision on management of exposure
- Balances flexibility/control vs. degree of certainty
- Explore feasibility of extended role for CLS
 - e.g., information provider to assist in SM's close-out processes

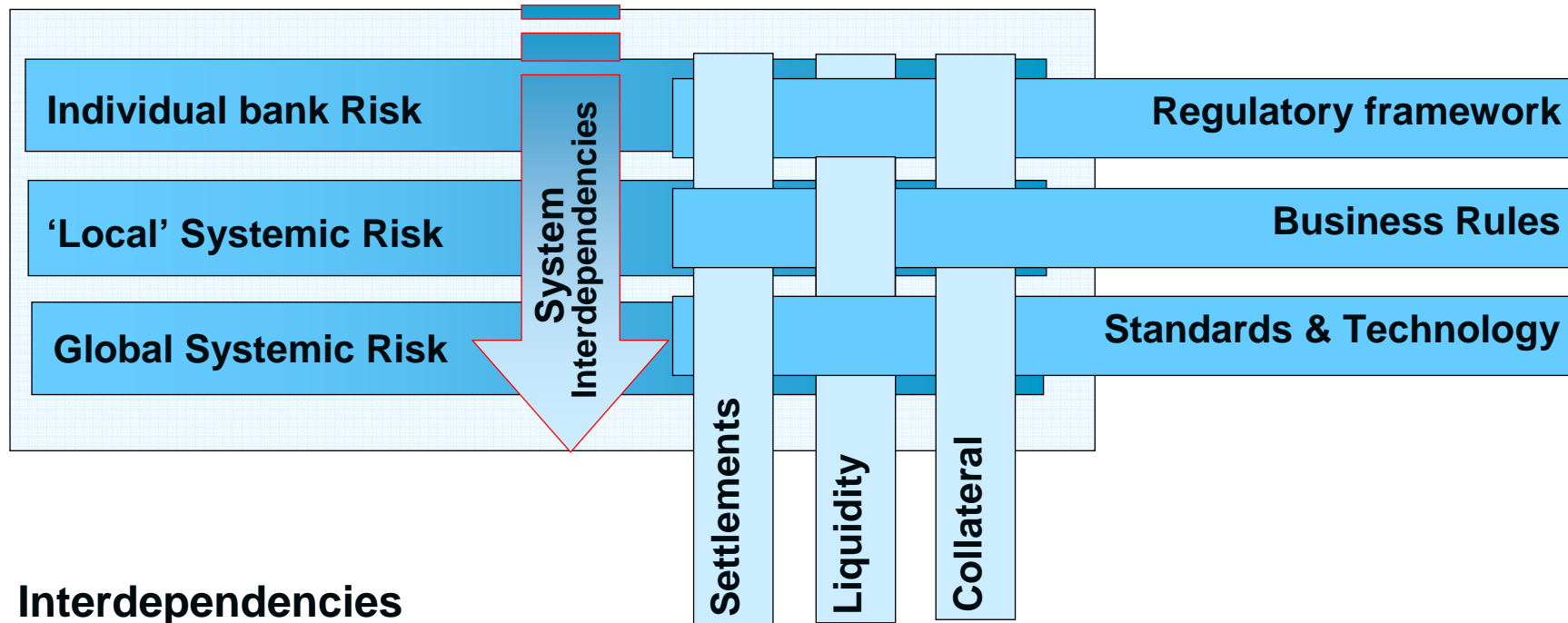


Issues for market participants and regulators



- The major changes over the last 20 years
 - Scale of the markets
 - Breadth of new instruments
 - Globalization
- However, risk parameters have not changed very much
- Trade-off of benefits of utility model vs. increased operational risk of concentration, e.g.,
 - Efficiency, control, real-time information, focused management during crisis
- Globalization adds new dimensions
 - International mechanisms
 - Need for cooperation
 - Understanding of the scale of interdependencies and regulation

View of market participants on interdependencies



Interdependencies

- Via regulation, business rules and standards, and infrastructures these interdependencies are pulled together and should be managed.

Cooperation

- Responsibility lies with the private sector and the public sector, and their ability to work together.

