



CLS Bank Protocol for FX

Overview

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- CLS provides matching and settlement services for payment Instructions relating to FX transactions, but did not initially replace the need for bilateral confirmation of FX transactions between counterparties

- In October 2004, CLS endorsed a ‘best practice’ for counterparties not to require receipt of MT300s when related Instructions were matched in CLS, thereby allowing those counterparties that wished to stop sending separate MT300s to do so.
 - The CLS Bank Member Handbook provides CLS Bank Members with a legal certainty that a “match” constitutes a confirmation of the FX Transaction, but does not address the operational aspects of the best practice

- In July 2006, CLS Bank issued to its Members a draft Protocol whose aim is to provide a legal and operational framework supporting the stated industry best practice of not requiring receipt of separate confirmation messages where related Instructions are processed for settlement in CLS Bank.

Purpose of the FX Protocol



- The purpose of the FX Protocol is to offer market participants an efficient way to address both the legal and operational issues that arise in connection with FX Transactions that are submitted to CLS for settlement. Specifically:
 - Confirmation of Economic Terms (Legal): to enable parties with FX Instructions related to their underlying FX Transactions submitted to the CLS System for settlement to treat FX Instructions that have been matched in the CLS System as a confirmation of each economic term of the underlying FX Transaction so matched.
 - Adoption of Stated Industry Best Practice (Operational): to enable parties to notify other parties of their respective current positions, as an operational matter, on the stated industry best practice of not requiring the receipt of separate confirmations of FX Transactions if the related FX Instructions have been matched in the CLS System (the *Best Practice*).
 - *Unlike the confirmation of economic terms described above, this is an optional, not mandatory, provision in the FX Protocol.*

Available Documentation



- Most recent drafts dated November 2006:
 - CLS Bank FX Protocol
 - Frequently Asked Questions (FAQs) concerning the CLS Bank FX Protocol
 - Procedures for the CLS Bank FX Protocol
 - Proposed form of amendment to the CLS Bank International Member Handbook
- Revised drafts versions are expected to be available in early Feb 2007
- The FX Protocol is expected to be launched by the end of March 2007

Implementation of Protocols Generally



- CLS Bank will publish a separate Protocol for each relevant product
 - Initially FX
 - Non-Deliverable Forwards during mid 2007
 - FX Options in early 2008
- For each Protocol there will be:
 - *An Adherence Letter*
 - CLS Bank Members are automatically bound to the Protocol through the CLS Bank Member Handbook
 - Other parties will sign an Adherence Letter confirming their adherence to the Protocol
 - *An Adoption Letter*
 - All parties can, at their option, sign an Adoption Letter identifying which of their BICs have adopted the industry best practice of not requiring receipt of MT300s

Publication of the Letters



- The Protocol is *multilateral*, i.e., adherence to the Protocol (and any adoption of the best practice) can be achieved with each other Adhering Party without the need for bilateral agreements
- CLS Bank has developed these Protocols in response to the needs expressed by the industry, and will receive and make available the materials and letters as agent for the Adhering Parties
 - CLS Bank will manage a publicly available website on which conformed copies of the Letters will be available for viewing and downloading
- In addition, the SSISearch Settlements Directory database, will be enhanced by SSISearch to allow institutions to publish their participation in a CLS Bank Protocol

CLS Bank NDF Protocol



- As mentioned earlier, the second Protocol CLS Bank will be developing and managing will be specific to NDF Transactions.
- EMTA jointly published a final form of bilateral master confirmation for NDF Transactions with the JSC (in England) and FXC/FMLG (in the US) in mid-December.
 - The purpose is to provide a master confirmation for the non-economic terms of the trade (e.g. valuation rate source, market disruptions etc.)
- It is our understanding that a subset of banks involved in that process will be commencing work to develop a multilateral master confirmation for NDF Transactions where related Instructions are submitted for settlement in CLS Bank.
- The CLS Bank NDF Protocol will refer to that specially tailored multilateral form. We anticipate making draft NDF Protocol materials available in April, following the launch of the FX Protocol and well in advance of the launch of the NDF settlement service by CLS.