

CLS: A Promising Value Proposition for Global Corporate Treasury

The Treasurer's Reality in 2003: A Single, Increasingly Competitive Global Marketplace

The year 2003 remains a challenging one for treasurers. Corporations are doing business in a single, increasingly competitive global marketplace, interest rates are at historic, all-time lows, and the credit market remains a difficult one. At the same time treasurers are expected to achieve more with fewer resources—to be strategic, value-adding heroes while coping with the increased financial controls and administrative burden required by Sarbanes-Oxley. Dealing with multiple treasury providers and systems may also complicate the life of the treasurer, making it harder to access information, comply with basic regulatory requirements, or generate a half-decent cash forecast. Many treasurers are facing new funding, receivables, credit and liquidity management challenges as their corporations expand into new markets.



CLS: One of the New 'Global' Treasury Tools

In order to cope—and gain competitive advantage—innovators in treasury management are exploring new, Internet-based technologies such as regional and global liquidity to

CLS Facts

- ▶ CLS is rapidly becoming the FX settlement standard in the industry. 51 banks have settled over \$50 trillion in FX trades through CLS Bank International since it went live in September 2002.
- ▶ CLS settles, on average, almost 70,000 payment instructions per day with an average gross value of approximately \$800 billion per day.
- ▶ The record high volume for one day is \$1 trillion.
- ▶ TowerGroup predicts that the volume of instructions submitted through CLS Bank will increase 150% by the middle of 2005.
- ▶ Currently, FX transactions involving Australian dollar, British pound, Canadian dollar, euro, Japanese yen, Swiss franc and US dollar can be settled in CLS. It is anticipated that the Nordic currencies as well as the Singapore dollar will be added within 2003.

maximize interest on cash positions while minimizing overdraft costs. CLS is perhaps one of the most valuable and least understood of the new treasury tools—one that is likely to become increasingly essential over time.

Continuous Linked Settlement, which was created by over 60 of the world's leading financial service companies to mitigate foreign exchange settlement risk, links multiple real-time gross settlement systems in real-time for a five-hour window, through CLS Bank International. CLS

radically reduces foreign exchange (FX) settlement risk by settling both legs of a foreign exchange transaction simultaneously and irrevocably on a payment versus-payment-basis, irrespective of geographies or time zones.

The Research: How CLS Benefits Corporations

In a recent study conducted by TowerGroup, 95% of respondents cited the "reduction of settlement risk" as an important or very important reason for joining CLS Bank; 88% cited "avoidance of regulatory action," and 65% cited "increased efficiency—to improve STP rates and reduce errors." Perhaps more importantly, CLS users cited significant, tangible benefits, extending far beyond settlement risk reduction, to both front and back offices.

Respondents identified the following as front-office benefits:

- Counterparty credit approval
- Decreased funding due to multilateral netting
- Better pre-settlement cash forecasts
- Reduction of credit usage

Counterparty Credit Approval

The CLS process encourages trading with additional counterparties and may lead corporations to consider counterparties that they have not traded with previously.

Decreased Funding Obligations Due to the 'CLS Netting Effect'

Rather than make multiple gross payments for trades, CLS participants manage one net position per currency (a single debit or credit position) in their end-of-day funding process with their Settlement Member. In this way corporations benefit from the "CLS netting effect." Global corporate treasuries, especially those with medium to high trading volumes—greater than 200 trades per month—can reap significant funding and liquidity benefits by netting their liquidity position.

In CLS, payments for trades, including misdirected and late payments, compensation claims, and the time and cost required to conduct payment investigations are virtually eliminated. Depending on the structure you establish with your CLS provider, overdraft fees can be reduced or eliminated as well.

Better Pre-Settlement Cash Forecasts

CLS features predictable, timed (rather than random) pay-ins and payouts. These timed pay-ins and payouts provide treasurers with more certainty about their intraday and end-of-day cash positions and improve forecasting. Proceeds can be scheduled more easily to facilitate funding of business activities occurring during the day.

Easy intraday access to real-time settlement information also enables corporations to see and fix FX trading mistakes ahead of settlement day. With CLS, participants know what has matched and what has not matched and can proactively initiate investigations, when necessary, resulting in fewer fails and fewer funding issues.

Reduction of Risk Credit Lines

CLS nearly eliminates settlement risk, and along with it, the need for settlement risk credit lines—freeing up credit that can be used for trading or other activities.

Benefits to the Back Office

With CLS, corporations can achieve a wide range of operational process and cost efficiencies.

Ability to Monitor Multi-Currency Activity through a Single Account and Simplify Reconciliation

With CLS, corporations can get information for

Citigroup as a CLS Provider

- ▶ Citigroup is committed to being the premier CLS provider in the industry. Our mission is to implement CLS in an optimal way in the client's back office, and to help each client take advantage of the full strategic value of CLS as a treasury management tool.
- ▶ With 29 third party CLS clients, Citigroup currently leads the global banks as a CLS third party provider.
- ▶ The criteria used to select a CLS service provider noted by Citigroup clients include: operational and service model, technology platform, and product expertise. In addition, clients noted Citigroup's on-the-ground presence in all major local markets and ability to provide implementation, training, back-office consulting, and ongoing support. Other selection factors include payment routing capabilities as well as the ability to provide intraday liquidity and real-time information through a single browser interface.

multiple trades in seven different currencies from one place, rather than from multiple accounts/banks, which simplifies reconciliation. Corporations receive one fully reconciled account statement showing all the settlement details for both sides of each transaction.

Higher Straight Through Processing Rates, Greater Operational Efficiencies and Reduced Costs

A fully automated CLS solution that is integrated into a treasury system enables corporations to rationalize back-office processes, streamline funding and account reconciliation, and achieve higher straight-through processing rates. As a result of increased operational efficiencies, the cost of foreign exchange settlement drops.

Greater Audit Control and a Streamlined Audit Process

Without CLS, a corporation's audit responsibilities and costs expand as they audit different currency accounts held at different banks. With CLS, corporations gain audit control and a streamlined audit process. This is because CLS concentrates funds into one bank, in the CLS operating account, bringing information on all currencies and transactions into one place, and Settlement Members provide one CLS operating account to their corporate clients. With CLS, corporations have easy, centralized access to real-time information on their foreign exchange trades, which streamlines the auditing and approval process.

CLS as a Strategic Treasury Management Tool

CLS is valuable to global corporate treasuries as a strategic treasury management tool.

A Greater Transparency of Information Enabling Better Management of Balances

In a non-CLS environment, treasurers typically do not know precisely what their net balance will be at the end of the day. With CLS, a participant sees the projected balance—one position for each currency—a day in advance.

In CLS, if a company is long in euro, and short in US dollars, they can use a tomorrow/next day swap, to trade euro against US dollars and thereby reduce or eliminate the overdraft in US dollars and avoid bank charges. In this way, the CLS settlement process drives the trading process and can improve the management of liquidity across borders.

Treasurers can use tomorrow/next day swaps to move idle balances to markets where short-term instruments are available as a liquid investment. Treasurers can also release enough balances using tomorrow/next day swaps for long-term investment and even business acquisition without having to remove necessary working capital from key market operations.

With a greater transparency of information available through CLS, a corporation's settlement, trading and treasury units have an opportunity to collectively manage trading and funding in a more optimal way—making adjustments to tomorrow's balances at the end of each business day.

Improved Management of Capital on a Global Basis

Since FX trading is more secure, efficient and cost-effective in CLS, corporations might embrace FX trading for cross-border funds movement on a more frequent—weekly or even daily—basis. They may want to consider using FX trading mechanisms in the CLS environment to fund subsidiaries, to manage capital and liquidity on a regional or global basis, or simply to hedge exposure in certain currencies.

Corporations generating operating costs and/or revenues cross-border may find CLS particularly useful. The process of funding subsidiaries in various countries and generating revenue cross-border often leaves corporations with large overdraft and idle cash balances around the world.

Corporations can use the CLS process to reduce these balances. They can do so by executing FX trades via CLS in order to fund subsidiaries and receive dividends on a more frequent basis. With a desirable way to fund operations cross-border and/or sweep excess funds back to the home-office via CLS, corporations may be able to match costs and revenue and manage their capital on a global basis more effectively.

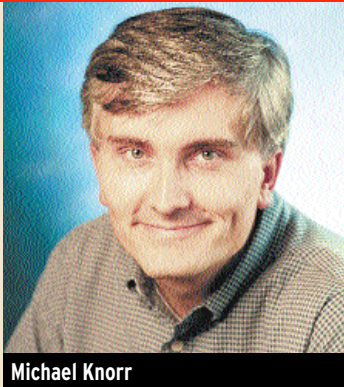
The CLS Opportunity for Global Corporate Treasury

CLS virtually eliminates FX settlement risk, provides benefits to both front and back offices, and offers a safe, cost-effective cross-border payments paradigm. The true challenge for treasurers vis-à-vis CLS at this time may be

determining how to take full advantage of the opportunities CLS offers. Corporations are advised to partner with a knowledgeable CLS services provider sooner rather than later—not only for assistance in settling through CLS but also to leverage CLS as an effective treasury management tool in the single, increasingly competitive global market. ■

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