



Continuous Linked Settlement (CLS)

salerio reduces your settlement risk in foreign exchange markets

solutions

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The Foreign Exchange market is a key component of global economic activity with daily average turnover exceeding \$5trillion. One of the most significant systemic risks to participants in the FX market is non-payment of funds, which potentially leaves any counterparty exposed, sometimes to excessively high levels.

Settlement risk, also known as Herstatt risk, is widely recognised as the one of the most significant risks facing Financial Services firms. The term Herstatt risk was coined following the failure of the German bank, Herstatt, on 26 June 1974. It had its banking license withdrawn by German regulators because the end of day income and capital balances it held to cover liabilities were insufficient due to unsettled transactions.

In this instance, counterparty banks had undertaken foreign exchange transactions with Herstatt, and having already paid them Deutsche



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Mark during the day, believed they would receive US dollars later that same day. Herstatt stopped all US dollar payments leaving their counterparties massively exposed.

Similar settlement failures have occurred with a familiar ring, often causing significant collateral damage to others, such as the collapse of Barings in 1995 and Lehman Brothers in 2008.

mitigating settlement risk

Continuous Linked Settlement (CLS) mitigates this risk by operating a global multicurrency cash settlement system through which both sides of the foreign exchange transaction are settled simultaneously (payment versus payment). Only when both sides are matched within the platform and the cash is available will the transaction be settled, ensuring that no party to the transaction is exposed to non-payment.

CLS currently covers 18 major currencies for FX spot, FX forward, FX swap and OTC credit derivatives. This service is available directly to settlement members or indirectly via settlement members (e.g. custodians) providing access to third parties.

our solution

To enable our clients to utilise CLS, salerio is now able to connect with the CLS platform via standard SWIFT MT304 messages sent to custodians. CLS eligible trades are identified at a broker and portfolio level where the SWIFT messages are then enriched with the CLS payment flags and information.

Users can easily control the flow of trades to CLS via static data or use traditional bilateral settlement methods. Both instances ensure that

salerio utilises CLS for every eligible trade, which in turn reduces settlement risk significantly.

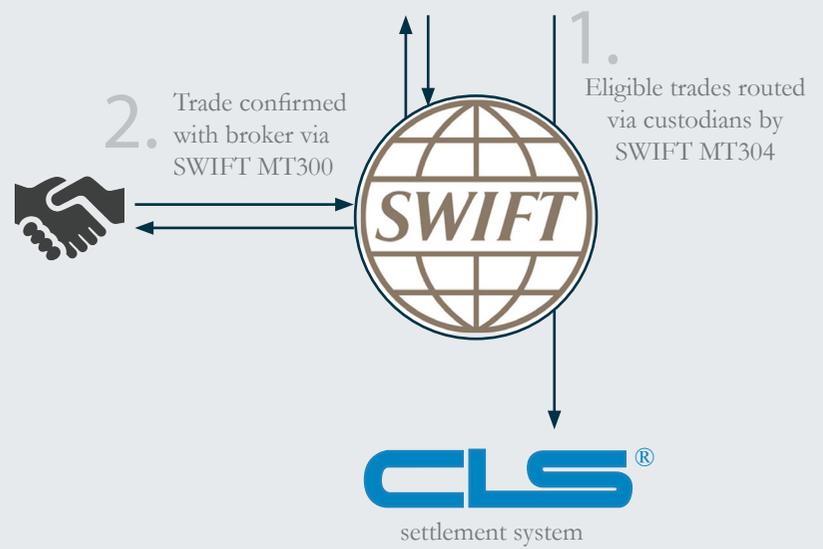
Transactions are still confirmed with the broker via the MT300 messages but with the addition of the CLS flag to the matching profiles. This ensures both counterparties to the transaction explicitly agree the method of settlement. Any discrepancy is raised to the exceptions workflow for immediate user intervention for resolution before the CLS daily cut off points.

In order for a transaction to be CLS eligible both the broker and the portfolio's custodian need to be settlement members. With most major banks already members, this means that the daily activity of most buy side institutions have significant coverage.

CLS FX Settlement Service via Salerio

2. Exception management provides clear data to be actioned before CLS daily cut off.

salerio.





salerio handles the posttrade processing of asset managers with a cumulative total of over \$2 Trillion AUM

Find out more about why our customers are enjoying the benefits of salerio. How can we help?

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 **salerio.**

Automates the flow of securities and treasury trades from matching through to settlement.

 **bitarisk.**

Suite of applications addressing needs of private wealth managers, investment advisors, asset managers, quant teams.

 **paragon.**

Fixed-income accounting hub delivers front-to-back office portfolio accounting and processing solutions.

 **sanctionsmonitor.**

A sophisticated, easy-to-implement and easy-to-use sanctions monitoring, auditing and reporting tool.

 **abraxsys.**

Comprehensive integrated banking platform delivering an industry-leading banking service.

 **costars.**

Retail fund/transfer agency solution providing end-to-end administration for collective investments.

 **almeter.**

Control financial and business risk by assessing the impact of varying interest rate scenarios and hedging activities.

 **kycmonitor.**

Case management solution to provide clear evidence to the relevant authorities that effective and sufficiently robust AML controls are in place.

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