

BUSINESS JUSTIFICATION
FOR THE UPDATE OF THE UNIFI (ISO 20022) FINANCIAL REPOSITORY

Name of the request:

Forex Notifications

Submitting organization:

CLS Bank International

39 Broadway,

29th Floor,

New York 10006

USA

Scope of the registration request:

This submission concerns a set of messages related to foreign exchange processes in the treasury domain.

CLS Bank International is submitting this request as CLS has been requested by its Members to provide settlement services for these additional FX instruments. The messages themselves will be applicable to the market as a whole.

Financial Instruments	- Non Deliverable trades - Currency Options
Business Area	Treasury
Business Processes	Foreign Exchange

This message set will cover the processing of confirmations, advices and settlement.

Purpose of the registration request:

The goal of these messages is to enable financial institutions, settlement systems and settlement parties to significantly automate the settlement process of Non Deliverable trades and of Currency Options premiums.

Currently there is no standardised schema for messages requesting the settlement of a Non Deliverable trade or the payment of the premium for an Option. These messages are sent by the trading parties (eg. Financial Institutions, Fund Managers, Corporates or the member of a central settlement system) to their trading counterparties or settlement entity. It is a comprehensive set of messages for both NDF trading and FX Options.

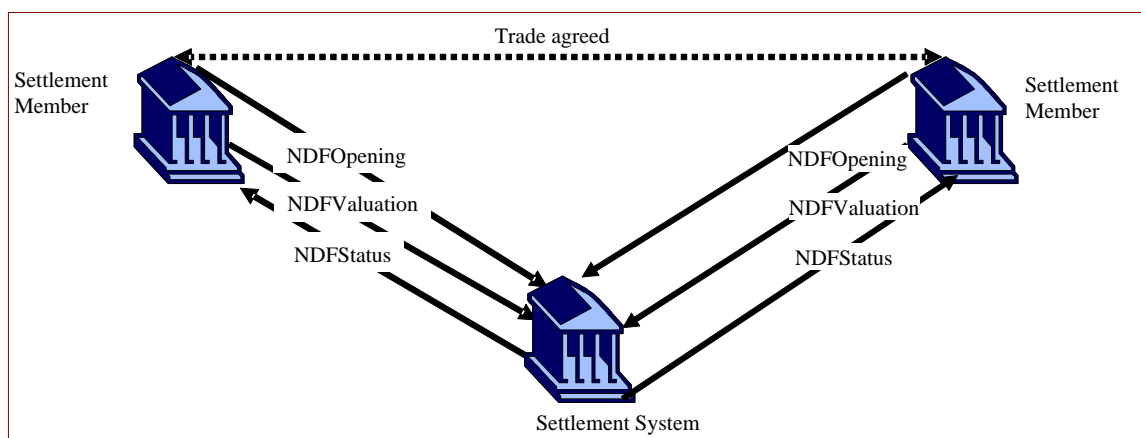
In general terms, there are generic benefits across the market related to each of the service proposals. These are highlighted below.

- Standardisation of confirmation matching;
- Removal of manual intervention and enhanced STP
- Increasing the level of market automation of transactions.
- Reduction of operational risk,
- Standardised XML schemas available for all market participants from execution to settlement input of trades and receipt of updates via a browser;

1. Non Deliverable trades

Currently, information on non deliverable currency transactions is included in Foreign Exchange confirmations and is identified through the use of codes in free format fields. This format does not cover all the information that is required to confirm a non deliverable trade. With the current lack of automated processes in the market, the matching/confirmation service would be a major benefit, particularly if standardisation allows the elimination of manual Long Form confirmations. The world of NDF processing is subject to significant manual intervention and bi-lateral discussion with respect to documentation and rate fixing.

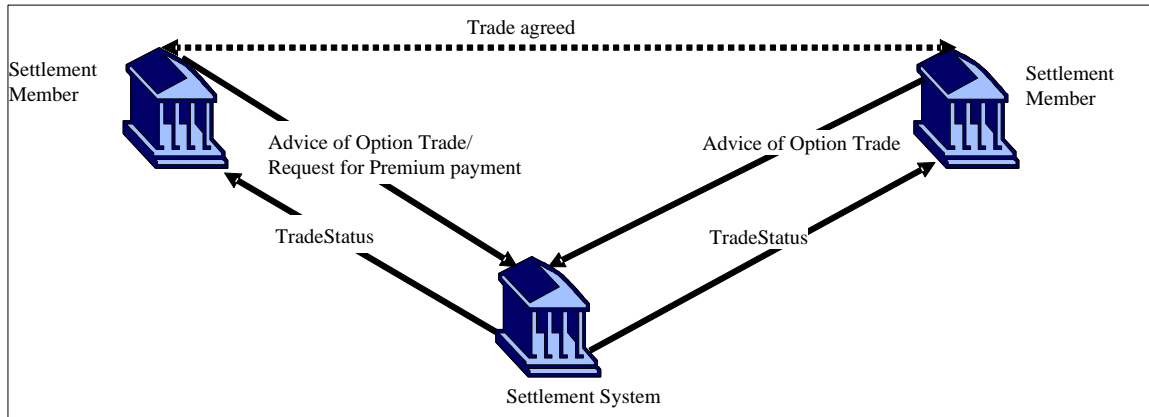
The CLS services will be a catalyst for adoption (and introduction where appropriate) of messaging standards for NDFs. The standardisation of formatted instructions together with agreed definitions and templates within the service will address and substantially reduce these issues.



2. Currency Options and Premiums

The FX Options market has grown substantially over the last few years. This has resulted in a strong traffic growth. Options premiums are also settled through a central system or a settlement party. Here, specific messages would allow parties to fully automate the confirmation and settlement process which would be a major benefit with the elimination of manual processes.

Again, with the introduction of the CLS services, market players are availing of the opportunity to improve the efficiency of the confirmation and premium payment processes while also eliminating the underlying payment risk, together with improved reconciliation processes due to the standardized nature of the new message schemas.



Community of users:

The treasury market, particularly its derivatives segment, is constantly evolving and the development of new standards will increase the STP level of middle and back offices.

The following parties will benefit from this new standardisation initiative:

- Foreign Exchange trading parties i.e. Financial Institutions, Brokers, Fund Managers.

These parties will be able to inform their counterparties and their settlement agent/system in a standard format of the conditions of a Non Deliverable trade or Currency Option.

- Settlement parties i.e. Central Settlement Systems, Custodians.

By receiving formatted messages, these parties can automate the process of reconciling and settling trades.

- Matching systems.

The Non Deliverable and the Option messages can easily be matched when these trade confirmations follow a standard format.

Timing and development:

The messages are developed jointly by SWIFT and CLS (Continuous Linked Settlement™).

A first set of messages should be developed by Q1 2006. The messages could then be directly submitted to the RA for registration.

The CLS Member community is involved in the review and validation of the message set.

CLS and SWIFT are committed to initiate and/or participate in the future message maintenance.

We know that FpML has created standards in the area of Non Deliverable trades and Options *but are not aware of any developments specific to the requirements identified within this Business Justification.*

Contact persons:

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Intellectual Property Rights (IPR):

CLS and SWIFT confirm their knowledge and acceptance of the UNIFI IPR policy for contributing organizations, as follows.

“Organizations that contribute information to be incorporated into the ISO 20022 Repository shall keep any Intellectual Property Rights (IPR) they have on this information. A contributing organization warrants that it has sufficient rights on the contributed information to have it published in the ISO 20022 Repository through the ISO 20022 Registration Authority in accordance with the rules set in ISO 20022. To ascertain a widespread, public and uniform use of the ISO 20022 Repository information, the contributing organization grants third parties a non-exclusive, royalty-free licence to use the published information”.

Comments received from RMG members and disposition of comments proposed by the submitting organization

United Kingdom comments:

The UK supports this BJ for Forex Notifications. Our only comments if with regard to how will this Forex work be progressed as it does not easily fit with the Payments or Securities SEG. Should there be a new FX SEG?

CLS shares the concern of the UK and leaves it up to the RMG to decide on the matter of creating a new FX SEG.

Switzerland comments:

Purpose of the registration request:

The today standardisation of confirmation matching of currency options are sufficient,

For NDF we see a clear potential

Currency options process are standardised including execution

Further to the decision by CLS Board, the introduction of services for vanilla options is a Phase one and the main focus going forward is to help address where appropriate the issues surrounding the more complex options and where the industry concludes its discussions, CLS will look to provide similar services for the additional and more complex currency options. The key focus has been to leverage the infrastructure currently in place and increase standardisation across the market. Currently, the majority of Options executed by CLS counterparties are settled in CLS. Extending the CLS service to further aspects of the instrument lifecycle increases the efficiencies that can be gained.

Community of Users:

We see only marginal benefit for the Middle Office and for the brokers

Reconciliation is mainly an issue for confirmation matching and nostro accounts reconciliation

The key benefits have been stated by the community in relation to increased standardisation, taking advantage of the multilateral net funding available via the CLS service and specifically, utilising the market infrastructures in place, eliminating for many, some steps in the processing of the instruction.

Timing and Development

The collaboration with FpML is not clear.

Does SWIFT and CLS base their development on the FpML models and work, or will it be an own and independent development?

If it is an independent development, why does the finance industry needs to competing standards, what is the rational behind it

To our knowledge, FpML doesn't cover the proposed functionality (e.g., notification, status report, advice message flows). However, a representative of FpML participated in the validation of the FX business model of SWIFT which serves as a basis to elaborate the proposed message sets. Moreover, to ensure interoperability, the FX related FpML business elements are taken into account in the message models that will be submitted for UNIFI registration.