

## **CLS Webinar FAQ**

The below list of scenarios is not meant to be an exhaustive list that could be impacted by T+1 implementation and does not constitute advice for any particular question, issue, or concern. This list is only meant to be a guide, and drafting parties (CLS, SIFMA, ICI, DTCC) are not responsible for the accuracy of the information. Firms that have questions should consult with counsel. The drafting parties encourage firms to expand or modify these documents as necessary to reflect their own analysis of the rule or specifics of particular transactions.

### **CLS Background**

*Question: How does CLS support the global FX market?*

Answer: CLS mitigates settlement risk by settling the payment instructions relating to underlying FX transactions simultaneously, using a unique payment-versus-payment (PvP) system, CLSSettlement. CLSSettlement provides synchronization in multi-currency foreign exchange transactions, mitigating the settlement risk on both sides of the trade. Due to the immense volume of transactions on the global foreign exchange (FX) market, CLS's risk-reducing settlement mechanism makes a significant contribution to the stability of the global financial system.

### **T+1 Impact on CLS Settled Transactions**

*Question: Has CLS conducted analysis to understand the breadth of impact of the transition to T+1?*

Answer:

CLS has analyzed its transaction data to assess the potential impact of the move to T+1 on CLSSettlement for asset managers and funds. This analysis shows that a value of <1% of the CLSSettlement average daily settlement value (USD6.5 trillion) is executed by buy-side participants on a T+1 basis," comprising volumes where one side is USD and a fund is party to the trade. Therefore, the value that may need to move to T+0 from 28 May 2024 is likely between 1 and 2% of CLSSettlement values, assuming no trading and operational process changes by industry participants.

### **CLS Operational Timeline Adjustments & Considerations for T+1**

*Question: Is an adjustment to CLS's operational timeline required as a result of T+1?*

Answer:

CLSSettlement can already accommodate T+1 flows as of today. However, CLS settlement members must ensure that the payment instructions related to an FX transaction are submitted to CLS by 00:00 CET.

For asset managers that access CLSSettlement indirectly through CLS settlement members, it is the settlement member custodian that handles all payment instructions and funding relating to its clients' FX trades. The custodians set their own cut-off times for CLS-related settlement to ensure adherence to CLS's deadlines. The cut-off times are independent of CLS's settlement process and vary across custodians and their clients, and they are not shared with CLS.

*Question: Given the compression in certain market participants' standard settlement cycle to T+1 in Q2 2024, there have been high levels of engagement in understanding if adjustment to CLS's operational timeline is feasible. Is CLS considering any adjustment to its settlement timeline?*

Answer:

- CLS recognizes the challenges T+1 securities settlement poses to the FX trade lifecycle, and we are engaging with sell- and buy-side clients to explore how the current suite of products can assist the market in the short term and to consider the feasibility of adjusting CLSSettlement processes to accommodate later cut-off times. However, our priority is to maintain the stability of the FX ecosystem, so any adjustments must be carefully considered.
- CLS is conducting a survey of its 74 settlement members to consider the feasibility of adjusting the operational workflows of CLS, its members, and their clients.
- CLS has also reached out to many of its 500 asset management firms that use CLSSettlement indirectly (see response below).

*Question: Has any potential adjustment in the CLS operational timeline been identified? If so, what considerations are being evaluated, and where in the timeline is this being considered?*

Answer: While an adjustment to the timeline may be technically achievable, various factors must be considered, including an internal risk assessment, settlement members' ability to support the adjustment, and the regulatory approval process.

- CLS has 74 settlement members, each of which input transactions until midnight CET. At midnight, CLS initiates a multilateral netting process and produces an initial pay-in schedule advising settlement members of the funds they are expected to pay in for settlement the next day. Settlement members in turn set their own cut-off times with their clients that are separate and distinct from the CLS deadlines.
- At 6:30 CET, CLS issues a revised pay-in schedule reflecting the final net short positions of all system participants in the respective currencies. A time window between multilateral netting and liquidity processing could potentially be adjusted. CLS has sent a questionnaire to its settlement members to assess the technical feasibility of potential adjustments of 30 minutes, 60 minutes and 90 minutes.

*Question: Has CLS engaged with asset managers to understand if the adjustment will alleviate their concerns?*

Answer: On the buy side, CLS reached out to many of the 500 asset management firms in its third-party community to better understand how they will be impacted by the move to T+1. At this time, 35% of them have not yet defined a clear solution to the challenges presented.

*Question: If cut-off times are not adjusted, what can asset managers do to mitigate risk arising from their FX transactions?*

Execution and operational efficiency will be paramount. CLS offers several additional products to support the asset manager and fund community.

- **CLSTradeMonitor** provides asset managers and funds with near real-time visibility of all CLS Settlement payment instructions across their custodians and brokers, allowing for swift identification and resolution of exceptions.
- For instructions that do not meet CLS's 00:00 CET deadline, **CLSNet**, an automated and standardized bilateral netting calculation service, can enhance post-trade efficiencies. By calculating net payment obligations that facilitate payment netting, the service helps buy- and sell-side participants reduce funding requirements and the number of payments required. CLSNet also enhances operational efficiencies through full automation, removing manual interventions from the netting calculation process.
- To help market participants better understand liquidity fluctuations and risk positions, **CLSMarketData** provides a suite of volume data products across 40 currency pairs on an intraday hourly or daily basis. These data products offer insight into market depth throughout the trading day and can enhance trading models to help satisfy best execution requirements.

*Question: Are there specific concerns related to where members are located and how T+1 may impact payment stability?*

Answer: CLS will not adjust its operational timeline if the adjustment would undermine payment stability. This means that trades that do not meet the CLS deadlines will need to be settled bilaterally, either gross or net, outside of CLS Settlement, where they may be exposed to additional counterparty risk.

*Question: If CLS decides to adjust its cut-off times, would such adjustment be implemented by the U.S. T+1 compliance date of May 28<sup>th</sup>, 2024?*

Answer: Internal risk assessment and evaluation of a potential adjustment is on-going. CLS expects to make a decision on the feasibility of adjusting cut-off times by the end of Q1 2024. An official determination on full implementation of any recommended adjustment cannot be made until all settlement member responses are received and fully understood. At this stage, any change would additionally require regulatory approval.

*Question: Why would an adjustment to the CLS operational timeline for its members be considered a material change if members are not required to align to it?*

Answer: If an adjustment is made, CLS needs to ensure that all settlement member systems, operational processes and liquidity sources can support the change in timing. CLS recognizes settlement members may or may not utilize the additional time window provided by an adjustment. However, system participants have existing processes that are embedded in the CLS operational timeline.

*Question for SIFMA: If CLS is unable to make an adjustment to their operational timeline by May 2024, would that be a reason to extend the compliance date?*

Answer: No, this is not a reason to extend the compliance date. The SEC has been very clear that the date will not change.

*Question: Are there any challenges with respect to daylight savings not aligning in the Fall and Spring?*

Answer: CLS settlement members can work around the changes in daylight savings time. CLS will carry out further analysis with its settlement members to determine whether or not certain weeks in the year become more complex with an adjustment to the CLS operational timeline. In particular, CLS is assessing the impact of an adjustment to its settlement members' pay-in schedule.