



## **CLS Fever Takes Hold**

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The imminent introduction of continuous linked settlement (CLS) as the long awaited panacea to regulators' concerns over FX settlement risk was one of the hottest topics at Sibos in Munich last month. CLS Services, the organization formed to oversee the proposed New York-based CLS Bank, chose Sibos as the venue to announce that 16 of its shareholders plan to be able to participate in the operational trials of CLS, scheduled to start in March 2000. The banks also plan to apply for membership of CLS Bank and to use its service during the ramp-up period from the launch date of October 2, 2000.

The 16 banks are ABN AMRO, Bank of America, Bank of New York, Bank of Tokyo-Mitsubishi, Bank One, Barclays, Chase, CIBC, Citibank, Deutsche Bank, HSBC, HypoVereinsbank, JP Morgan, Morgan Stanley, Paribas and UBS. Four of these players – Barclays, HSBC, JP Morgan and UBS – have been beta testing the settlement system and communications network since May of this year. CLS Services says it expects its remaining shareholders to be using the CLS Bank service by the end of 2001.

Swift itself was pretty keen to talk about CLS as much as possible, since it is for CLS that the co-operative has produced the first deliverables of its next generation, IP based network. At the Swift plenary, chief executive Leonard Schrank said: "CLS is our first next generation deliverable. Here, we're providing a new interactive service which runs on our new, secure IP network. The network is currently operational in seven cities. The service is already interacting with the IBM built CLS engine."

Swift can be justly proud of its on-time delivery of next generation functionality, but elsewhere in the conference the subject of CLS was creating not a little concern. The feat expressed by some attendees was that the liquidity demands posed by CLS Bank will be unmanageable for some players. It was by no means universally agreed that the problem would be too great to overcome, but the consensus did emerge that an intraday money market is likely to develop to meet those liquidity demands.

Among the exhibitors, IBM was, not surprisingly, among those banging the CLS drum the loudest, since its delivery of the central system is on time. However, Elaine Sullivan, global financial markets executive at IBM, offered a note of caution. "We spent a lot of time early on looking at the implications downstream from CLS, and there is much more to be looked at in terms of the full impact on the business. There have been so many other areas to focus on that I don't think as many institutions have thought about the full impact as you might expect. We are just starting to see a take-up now; there is a lot more work to be done."

Susanne Bachmann, marketing and business development, Management Data, made the point that, at the CLS vendors meeting held during Sibos, "some surprise was expressed that there were so many CLS solutions on the stands since the full specifications are not available yet." Management Data was among the many vendors showing CLS related products. "The work we have done has been based on meetings with existing customers involved in CLS," she said. "The first round of CLS involves lots

of our customers. There is a need for definition of exact requirements, but some are obvious and we have already started development on those." This includes the impact on FX matching and account and reconciliation matching, she said.

Management Data is adding functionality to Comfort, a component of its Financial Transaction Management solution for the matching of forex and moneymarket transactions, to meet the requirements of CLS, and was demonstrating on its stand a prototype showing the proposed integration between Comfort and CLS. The idea is to enable Comfort users to see the status of CLS deals matched centrally, as well as the status of those matched locally using Comfort. In addition, Management Data will link Comfort with Swift's Accord central matching system. "It is clear that for CLS a combination of localized and centralized matching is required to achieve optimum automation," Bachmann said.

Fundtech used Sibos as a platform from which to launch its PAYplus CLS solution, to enable CLS settlement member banks to manage the complete lifecycle of FX transactions settled via CLS, and to offer CLS services to third parties.

Meanwhile Logica, keen to pick up as much CLS connectivity business as possible after losing out to IBM to build the central facility, was trumpeting its CLS Manager solution. The first phase of the system, for members handling settlement of their own trades, is slated for delivery in the first quarter of 2000. The second will follow in Q2 and will handle third party requirements. Not to be outdone, mpct signed up its first customer for CLS Server in Munich. Barclays will use it to offer a third party solution to its clients. The mpct product runs on Compaq kit, and Compaq is also on hand to help with installation.

Shortly before Sibos, Bank of America felt moved to issue a warning that corporates were being too slow to wake up to CLS. Judging by the range of technologies on the stands in Munich, it is not a lack of appropriate systems that is standing in their way.