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Advisory Notice

Clearing House

TO: Clearing Member Firms,
Chief Financial Officers,
Back Office Managers

FROM: Clearing House Department

DATE: 3/12/2004

ADVISORY: 04-41

SUBJECT: **CLS SETTLEMENT METHOD FOR CURRENCY DELIVERIES**

Effective for the March 2004 Currency Delivery, CLS will be available as the settlement method for the following currencies and their respective cross-rates:

<i>AC = AD/CD Cross Rate</i>	<i>CD = Canadian Dollar</i>	<i>RF = EC/SF Cross Rate</i>
<i>AD = Australian Dollar</i>	<i>CN = EC/NKr Cross Rate</i>	<i>RP = EC/BP Cross Rate</i>
<i>AJ = AD/JY Cross Rate</i>	<i>CY = CD/JY Cross Rate</i>	<i>RY = EC/JY Cross Rate</i>
<i>BF = BP/SF Cross Rate</i>	<i>E7 = E-mini Euro FX</i>	<i>SE = Swedish Krona</i>
<i>BP = British Pound</i>	<i>EC = Euro FX</i>	<i>SF = Swiss Franc</i>
<i>BY = BP/JY Cross Rate</i>	<i>J7 = E-mini Japanese Yen</i>	<i>SJ = SF/JY Cross Rate</i>
<i>CA = EC/AD Cross Rate</i>	<i>JY = Japanese Yen</i>	<i>UN = Norwegian Krone</i>
<i>CC = EC/CD Cross Rate</i>	<i>KE = EC/SKr Cross Rate</i>	<i>DR = CME\$INDEX</i>

The following are the instructions and time lines for firms to adhere to when delivering the various currencies through CLS.

Continuous Linked Settlement (CLS) is a real-time global settlement process that reduces settlement risk caused by foreign exchange transactions occurring across different time zones. Both sides of a FX transaction are settled simultaneously in CLS Bank on a payment versus payment basis.

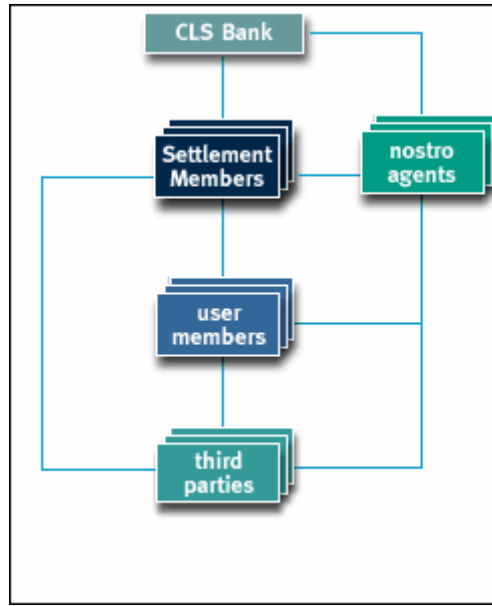
Settlement of the currencies involved in CLS will occur in a five hour window beginning at 12:00 Midnight Chicago time and ending at 5:00 AM on the delivery date based on a pay in schedule set by the firm's CLS Provider. The payment of the currency owed will be simultaneously transferred when the delivery currency has been paid to CME's CLS Agent Bank by the firm's CLS Provider. CME delivery guarantees are complete when monies have been settled through CLS Bank to the firm's selected CLS Provider.

Please call the Deliveries Unit of the Clearing House at (312) 930-3172 if you have questions.

GETTING STARTED

CLS Settlement Members and CLS Providers

CME will utilize Citibank as its CLS Agent Bank. Firms preferring to utilize CLS must have a relationship with a CLS Settlement Member or CLS Provider. This provider will be responsible to route settlement information into the CLS matching system by 1:00 PM on the day before delivery.



Settlement Members

Settlement Members are shareholders of CLS Group and have the financial and operational capability and sufficient liquidity to support their financial commitments to CLS. They can each submit settlement instructions directly to CLS Bank and receive information on the status of their instructions. Each Settlement Member has a multi-currency account with CLS Bank, with the ability to move funds. Settlement Members have direct access and input deals on their own behalf and on behalf of their customers. They can provide a branded CLS service to their third-party customers (i.e. CME is a third-party customer of Citibank) as part of their agreement with CLS Bank.

A list of Settlement Members may be found in the Appendix section.

Providers or User Members

User Members can submit settlement instructions for themselves and their customers. However, User Members do not have an account with CLS Bank. Instead they are sponsored by a Settlement Member who acts on their behalf. Each instruction submitted by a user member must be authorized by a designated Settlement Member. The instruction is then eligible for settlement through the Settlement Member's account.

Third Parties

Third parties are customers of settlement and user members that have no direct access to CLS. Settlement or user members must handle all instructions and financial flows, which are consolidated in CLS. The terms on which members can act on behalf of third parties are governed by private arrangement. These do not directly involve CLS Bank and third parties do not have any relationship with CLS Bank. Members may provide a trademarked CLS service to their third-party customers.

Fourth Parties

Fourth parties, like third parties, have no direct access to CLS. They are customers of third parties and would utilize the latter's arrangement with its settlement member.

Points to Remember

- CLS transactions may be entered on proprietary systems provided by CLS Settlement Members or Providers or via SWIFT MT300 series messaging.
- CME will not be sending trade messages to counterparties on the transactions settled through CLS.
- If an OTP is normally required for the side of the transaction for the contract but *the CLS transaction is not matched by 1:00 PM on the day before delivery*, CME will require that an Order-To-Pay be issued for the delivery amount. In addition, fines may be levied against the firm.

Standard Settlement Instructions

Firms utilizing CLS for the first time need to instruct their Settlement Member to submit to the CME Clearing House a Standard Settlement Instruction form, which informs the Clearing House that the firm has made the necessary arrangements with the Settlement Member and is ready to use the CLS system.

Forms must be submitted to the Clearing House by Friday preceding the last trading day for currencies. A copy of the form may be found in the Appendix section.

Following is the necessary counterparty information firms should pass on to their CLS Provider for CME Currency Deliveries using CLS:

Type	SWIFT Tag	Swift Address
CME Settlement Member	57A	CITIGB2LCLS
CME Swift Address	87A	XCMEUS4C

CLS Process Summary

Last Trading Day (generally Monday)

- ◆ Trading closes and CME Clearing House receives the contract settlements, *9:16 a.m. Chicago time.*
- ◆ Settlements finalized in the C21 Currency Delivery System, *9:30 a.m. Chicago time.*
- ◆ Banking instructions are set up with the firm's CLS Agent. Transactions are given a reference number. The CLS Agent will handle both sides of the transaction.
- ◆ Firms enter their CLS Agent's SWIFT ID reference into the C21 Currency Delivery System, *11:00 a.m. Chicago time.* Settlement Members should use "CLSBUS33".
- ◆ Firm's CLS Agent enters transaction into the CLS System.
- ◆ CME sends their side of the CLS transaction.

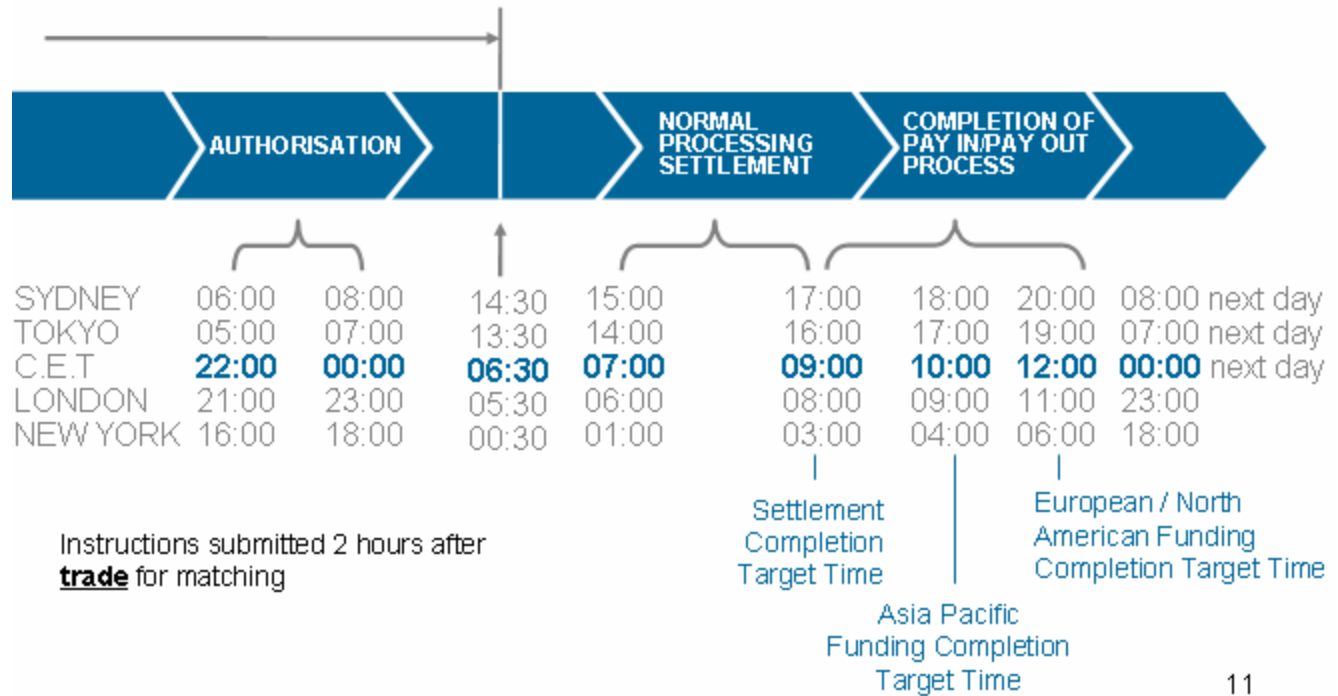
Day Prior To Delivery (generally Tuesday)

- ◆ *Deadline to enter transactions in CLS is 1:00 PM Chicago time.* Any unmatched transaction will not be paid on the delivery date. In addition, fines may be assessed by the Clearing House.
- ◆ The CLS deadline chart is displayed in the following page.

Day of Delivery (generally Wednesday)

- ◆ Beginning at *12:00 AM Chicago time (7:00 AM CET)* CLS begins settling transactions.
- ◆ CME payment is made simultaneously with the receipt of firm's payment.
- ◆ Payment is made to the firm's CLS Agent. The firm's CLS Agent handles further disbursement of funds.
- ◆ CLS Settlement is complete by *5:00 a.m. Chicago time (12:00 noon CET).*

CLS Bank Operational Timeline - CET



Entering Information into CME's Currency Delivery System

Clearing firm staff would need access to CME's Clearing 21 Currency Delivery System through the Portal just like in the current method. However, transactions settled through CLS will not require bank account information or fund forwarding information as in the existing process. Instead, firms will enter their CLS Provider and their corresponding SWIFT BIC. These will be entered through the Clearing 21 Currency Delivery System which has been modified to handle CLS Transactions. Following is a screen shot of the Currency Delivery System Commitment Entry Screen.

Delivery Commitment

Commitment Actions Authorizations View Window Help

Commitment Information

Commitment No: ☐ Authorized

Clearing Firm: BUY

Delivery Firm: Buy

Contract: Sell

Contract Qty: Value Date: 06-18-2003

Contract Size: 125000.00 EUR

Settle Price: 1.178300 USD / EUR N

Contract Value: 147287.50 USD

Price as of: 03-05-30 at 16:21:52

Total Commitment Value

147,287.50 USD

125,000.00 EUR

Delivery Information

Delivery Firm will take Delivery of: EUR

Delivery Bank

Delivery Account

Delivery Bank Detail ...

Int. UI.

Payment Information

Delivery Firm will pay: USD

Payment Bank

Payment Account

Payment Bank Detail ...

OTP Information

OTP Bank

OTP Bank Detail ...

CLS Information

Firm will use CLS Bank

CLS Bank

CLS BIC Code:

CLS Account

CLS Customer ID

Firm CLS Bank Detail

CLS Agent Bank Detail

Agent Banks ...

Window Mode NEW

Last Chgd by

Payment Method

WT

OTP

CLS

New Update Save/Cont. Cancel

Commitment 1 of 1

< Prev Next >

2003-06-04 13:27

- Login to the Clearing 21 Currency Delivery System through the Portal.
- Select the contract, enter the quantity, market side and then select CLS in the Payment Method section. This will enable the CLS Bank button.
- Clicking this button will bring up a list of CLS eligible banks recognized by CME. If the bank your firm has selected is not included in the list, contact the Clearing House Deliveries Unit who will decide if the bank may be added to the list based on a list provided from CLS.
- Once a CLS Bank has been selected a SWIFT address of the party entering the trade on the firm's behalf is required. This is known as the "Counterparty A" (Tag 82A) in SWIFT.

- Enter this information by clicking on the CLS Account button, which will activate the Accounts Screen of the Currency Delivery System (pictured below).

The screenshot shows a software window titled "Account Maintenance" with a menu bar (Account, View, Window, Help). The window is divided into several sections for data entry:

- Account Summary:** Includes fields for "Clearing Firm", "Bank", and "Delivery Firm".
- Intermediate Account:** Includes fields for "Name", "Number", "Sort Code", and "Intermediate BIC".
- Ultimate Account:** Includes fields for "Name" and "Number".
- CLS Information:** Includes a field for "Customer ID".
- Contact:** Includes fields for "Name", "Phone", "Fax", and "Reference".
- Window Mode:** A button labeled "DISPLAY".

At the bottom, there is a row of buttons: "Select", "New", "Update", "Save/Continue", "Cancel", "<Prev", and "Next ->". To the right of these buttons, it says "Account 1 of 2". At the very bottom right, there is a date and time display showing "2003-06-04" and "13:28".

- If your firm is submitting to CLS as a Settlement Member, enter CLSBUS33 in the Customer ID field.
- Settlement Members and Third Parties should enter "0" in Ultimate Account Name and Number fields. *Fourth parties, on the other hand, must input their Ultimate Account Name and Number.*

Entering Information into a Firm's CLS System

Each Settlement Member has its own unique version of the CLS System, but the essentials are the same for all. After creating the delivery commitments in the CME's Currency Delivery System, it is imperative that firms input them into their respective Settlement Members' CLS System in order to create and send their instructions.

Key points to remember:

- CLS instructions must be submitted by the day before delivery (generally Tuesday) at 1:00 p.m. Chicago time. If an instruction is not matched by that time, the Clearing House may contact the firm to issue an Order-to-Pay (OTP).
- Make sure that the correct **settlement prices** (obtained from CME) are used as the corresponding **exchange rates**, and that the **trade date** is the *last trade day preceding the actual delivery date*, which is generally a Wednesday.
- All currencies, with the exception of Canadian Dollar, terminate trading on Monday, 9:16 a.m. Chicago time. Last trade date for Canadian Dollar is Tuesday, 9:16 a.m. Chicago time.¹
- When CLS begins processing settlements at 12:00 a.m. Chicago time (7:00 a.m. CET) on the day of delivery, firms can start viewing the progress of their instructions through their Settlement Member's CLS System.
- CLS settlement is complete by Wednesday, 5:00 a.m. Chicago time (12:00 p.m. CET)

¹ On certain holidays in the U.S. or in the corresponding foreign country, the last trading day and/or the day of delivery may be moved to the day preceding or following it.

APPENDIX:

Chicago Mercantile Exchange
CLS Settlement Services

Standard Settlement Instruction Notification

TO BE COMPLETED BY THE SETTLEMENT MEMBER:

(PLEASE SUBMIT TO THE CLEARING HOUSE BY THE FRIDAY PRECEDING THE LAST TRADING DAY)

Date: _____

Be advised that the CME Clearing Member Firm listed below can settle Foreign Exchange via CLS.

Clearing Member Name: _____

Category (select one): ☐ User Member ☐ Third Party ☐ Fourth Party

Settlement Member Name: _____

CLS ID Reference: _____

Location (City, Country): _____

Fourth Party Ultimate Account Name: _____

Fourth Party Ultimate Account Number: _____

I attest that the Clearing Member Firm named above has made the necessary arrangements with the Settlement Member and is ready to use the CLS System.

Authorizing Manager (Print Name)

Signature

Telephone Number

APPENDIX:

Eligible CLS Banks

Bank	Location	Bank	Location
ABN AMRO Bank	Netherlands	ING Bank	Netherlands
Australia and New Zealand Banking Group	Australia	JPMorgan Chase Bank	USA
Banca Intesa	Italy	KBC Bank	Belgium
Banco Bilbao Vizcaya Argentaria	Spain	Mellon Bank	USA
Bank of America	USA	Mizuho Corporate Bank	Japan
Bank of New York	USA	Morgan Stanley & Co	USA
Bank of Tokyo-Mitsubishi	Japan	National Australia Bank	Australia
Bank One	USA	Nordea	Denmark
Barclays Bank	UK	Norinchukin Bank	Japan
Bayerische Landesbank	Germany	Northern Trust Corporation	USA
BNP Paribas	France	Oversea-Chinese Banking Corporation	Singapore
Citibank	USA	Rabobank	Netherlands
Commerzbank	Germany	Royal Bank of Canada	Canada
Commonwealth Bank of Australia	Australia	Royal Bank of Scotland	UK
Credit Suisse First Boston	Switzerland	SEB (Skandinaviska Enskilda Banken)	Sweden
Crédit Agricole S.A.	France	Société Générale	France
Crédit Lyonnais	France	Standard Chartered Bank	UK
Danske Bank	Denmark	State Street Bank and Trust Co.	USA
Den norske Bank	Norway	Sumitomo Mitsui Banking Corporation	Japan
Deutsche Bank	Germany	Sumitomo Trust & Banking Co.,Ltd.	Japan
Development Bank of Singapore	Singapore	Svenska Handelsbanken	Sweden
Dexia Banque Internationale à Luxembourg	Luxembourg	UBS	Switzerland
Dresdner Bank	Germany	UFJ Bank	Japan
Fortis Bank	Belgium	UniCredito Italiano	Italy
Goldman Sachs Group	USA	United Overseas Bank	Singapore
HSBC Bank	UK	Westpac Banking Corporation	Australia
HypoVereinsbank	Germany	Zürcher Kantonalbank	Switzerland