

COMMITTEE LETTER

Commenting on the CLS Bank Proposal to Change the Trade Confirmation Process

June 6, 2001

William Koleba
CLS Confirmation Exchange Committee
C/O The Bank Of New York
CLS Project Office
32 Old Slip, 16th Floor
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Dear Mr. Koleba:

The Foreign Exchange Committee's Operations Managers Working Group has long been an advocate of streamlining the back-office process while ensuring the adherence to our recommended *50 Best Practices* in monitoring and controlling operational risk. An important part of the foreign exchange process flow is the confirmation of the trade as well as the resulting settlement of the underlying obligation.

In this regard, it is with great interest that we have been following the progress of the CLS Bank initiative to eliminate settlement risk as well as your committee's work in identifying the opportunities for leveraging the CLS instruction match process as a substitute for the trade confirmation match.

Having reviewed version 2.1 of your committee's paper on the elimination of SWIFT MT300 matches in favor of the CLS instruction match, we add our support to your efforts and wish to highlight several key points in your document:

- ~ Institutions participating in CLS should establish a control process to monitor the status of their instructions at CLS Bank. This monitoring process should identify unmatched trades on the trade date.
- ~ Instructions should be submitted to CLS Bank within the two-hour limit recommended as a best practice.

- ~ Banks considering eliminating the MT300 confirmation match on a bilateral basis should ensure their processing and confirmation systems have been adjusted to accommodate the selective nature of match substitution with regard to counterparties and currency pairs while still supporting settlements outside of CLS, as needed.
- ~ Procedural changes must also be implemented to ensure that key controls are in place to adequately identify exceptions.

Those institutions that are able to participate comfortably in this match substitution process may indeed find an efficient processing method that maintains accuracy and control.

We thank you for submitting your document to us for evaluation and including us in the discussion process.

Very truly yours,

David Puth
Chairman
The Foreign Exchange Committee

Jeanette Wong
Chairman
Singapore Foreign Exchange Committee