

The CLS BANK has recently recommended that parties to a transaction settled through CLS should not request SWIFT MT300 confirmations from each other. The Tokyo Foreign Exchange Market Committee believes that, because MT300 are widely used for the confirmation of inter-bank forex transactions, the CLS-BANK recommendation will likely have a market-wide effect. The Committee has examined this issue from a variety of angles. The document entitled "Notes about the Discontinuation of Confirmations (MT300) for CLS transactions" (referred to hereafter as "the Document") summarizes the results of this examination into the MT300 issue. We would like to express our deep gratitude to all the financial institutions that contributed to the effort.

Obviously, parties to a transaction could choose between themselves any method for confirming a transaction, and the Committee is not in a position to agree or disagree with the current CLS BANK recommendation. However, the termination of MT300 exchanges would significantly affect transaction confirmation and other systems, which generally presumes the exchanges of MT300. Not only will financial institutions which directly participate in CLS be affected, but there is also a strong possibility that settlement and clearing operations at financial institutions indirectly involved in CLS will face adjustment pressures.

It should be noted that some issues are discussed only on a "what if" basis in the Document, and some are issues for further study in the future. The Committee hopes that financial institutions involved in CLS would make full use of this Document to prevent unanticipated disruptions as MT300 confirmations for CLS transactions are discontinued.

Considering that CLS is already an important forex infrastructure between banks and other financial institutions, it can easily be imagined that, moving forward, revised procedures within CLS might seriously impact the entire market as has been the case with this MT300 best practice. The Tokyo Foreign Exchange Market Committee, strongly hopes that private corporations entrusted with public good, such as the CLS BANK, will give due consideration to the entire market in their decision-making.

July 7, 2004

Tokyo Foreign Exchange Market Committee

Tetsuji Ogino, Chairperson

Settlement Subcommittee

Toru Ichikawa, Chairperson

## **Notes about the Discontinuation of Confirmations (MT300) for CLS Transactions**

### 1. Transaction Confirmations

The discontinuation of "MT300"\* may very likely create new problems in confirming trades between CLS-participating financial institutions (hereafter referred to as "CLS Participants"). In order to deal with CLS settlement-related troubles and other types of problems, CLS Participants should retain transaction evidence required by laws, regulations, or internal operating procedures, as described below.

\*The Board of CLS Bank has approved a recommended best practice that all Members of the CLS community are expected to be in a position, by the end of September 04, not to require the receipt of an MT300 as a confirmation message. As a result, some institutions will likely cease MT300 transmission from October. (Note: This does not mean all CLS Participants will cease sending MT300 entirely).

### 2. CLS Settlement-related Trouble

(1) In the event of CLS trouble (such as system malfunction), the lack of MT300 exchanges may have an impact on transaction confirmations (i.e. making it harder to confirm whether a transaction is valid or delaying the confirmation process). Therefore, all CLS Participants will need to fully examine how to confirm transactions in the event of troubles and where this confirmation process falls in the overall scheme of internal operations.

(2) Generally speaking, settlement of transactions will be deferred in the event of industry wide CLS troubles. However, parties may agree to change settlement for some transactions to NON-CLS (i.e., as OUT-CLS transactions). If this happens, transactions must be confirmed between the back offices. The exchange of MT300 is the recommended way of handling this confirmation.

(3) When transactions are effected via electronic broking systems, it is difficult to amend settlement information over the electronic systems, for instance, settlement changed from CLS to NON-CLS. Therefore, transaction parties need to confirm any changes in settlement directly with each other.

(4) For voice broker transactions, the voice broker handling the transaction must be notified of any settlement method change. After notification, the voice broker needs to promptly amend the broker confirmation, and resend it to the relevant counterparty.

(5) CLS Participants are expected to take necessary actions such as drafting appropriate revisions to existing internal operating procedures or adopting new operating procedures, taking into account issues outlined above.

### 3. Delays in Discontinuation-related System Support

(1) If the necessary changes to IT systems are not implemented by the end of September, when the new Best Practice is expected to come into effect, CLS Participants will need to have fallback measures in place for both receipt and transmission of MT300.

(2) For CLS Participants on the receiving end, delays in systems support would result in unmatched confirmations because the system would no longer be receiving MT300. To deal with this, additional software could be introduced to eliminate unmatched transactions. Alternatively, the CLS participant might request transaction counterparties to continue MT300 transmissions.

(3) For CLS Participants on the sending end, delays in system support would result in continued MT300 transmissions to transaction counterparties, but this will cause no particular problems in terms of market practices.

(4) In either case, CLS Participants should respond by introducing appropriate infrastructure and by enacting or revising related internal operating procedures as described above.

### 4. Third Party Transactions

(1) Third Parties will also need to fully examine the impact of MT300 discontinuation identified in items 1 to 3 above. Particular care should be given to developing infrastructure (such as system support) and enacting/revising related internal operating procedures.

(2) Third parties will not directly receive information about MT300 discontinuation from CLS. Therefore, third parties must remain in close contact with their settlement or user members and fully ensure that measures are in place to deal with MT300 discontinuation.

## 5. Postscript

(1) Exchanging MT300 may also be useful in confirming some transactions in cases where there are no trouble directly involving CLS. One example might be when a counterparty unilaterally rescinds a transaction (voiding a transaction submitted to the CLS Bank before the settlement date). CLS Participants should show flexibility in using MT300 in such cases.

(2) As CLS settlement is still not widely used for mutual fund FX transactions, MT300 discontinuation will have little impact on such transactions. However, if CLS settlement becomes more widely used for mutual fund FX transactions in the future, the impact of MT300 discontinuation may have to be re-examined.