



## FX OUTSOURCING STRATEGIES FOR BANKS

### CLS and FX White Labeling

Continuous Linked Settlement, better known as CLS, is rapidly becoming the foreign exchange (FX) settlement standard in the industry. CLS has already had a profound impact on FX settlement and cross-border payments by eliminating gross trade payments and making it possible to monitor the entire trade settlement life cycle in real time. Most banks and even some high volume FX players have decided to participate in CLS as Third Parties. By doing so they are, in effect, outsourcing their FX settlement, payment processing, and reconciliation to a CLS Settlement Member in order to gain efficiencies and reduce cost in their back-office. Now a new FX outsourcing proposition is emerging. Using FX “white label” outsourcing solutions, banks can gain efficiencies in their front office by partially outsourcing some FX trades or by outsourcing their entire trading function.

#### Partial Outsourcing for High Volume FX Players

For high volume players, FX revenue may justify the cost of maintaining an interbank trading desk but may not be sufficient to justify the cost of maintaining trading desks in, for example, non-G-7 currencies. For a U.S. bank that trades primarily U.S. and Canadian Dollars, partial outsourcing using a third party FX outsourcing solution for non-G-7 currencies, provides a cost-efficient way to offer additional currencies to customers. It can also provide banks with a broader global reach, enabling a European bank to provide 24/6 FX trading coverage of Asian and North American currencies. A third party FX outsourcing solution is also valuable as a contingency system. CitiFX® White Label, for example, can easily be turned on or off as needed – when a trader is on holiday or even momentarily away from the trading floor.

#### Outsourcing for Small Volume FX Players

Third party FX outsourcing solutions enable smaller volume FX players to off lay price risk and position management and eliminate the cost of maintaining an FX trading desk which include staffing, market data services, dealing systems, and risk and position management. Using a third party FX outsourcing solution, these smaller volume FX players, that may not have the financial or technical resources required to implement client-facing technology offered by larger competitors, can provide FX services to their customers cost-effectively. They can then redeploy resources to focus on FX sales and customer service in order to maintain and grow their FX franchise.

Clients that outsource both their back and front offices to a single provider benefit from additional process and cost efficiencies.

### The Benefits of Using a Single Provider

Let’s consider, as an example, Bank XYZ, which trades non-G-7 currency pairs through CitiFX® White Label, trades U.S. and Canadian dollars in-house, and also uses Citibank for CLS settlement.

#### Using CitiFX® White Label for Some Currency Pairs

The FX sales desk at Bank XYZ takes a customer order electronically using the CitiFX White Label system or by phone. Their customer, who wants to sell Swedish Krona and buy U.S. Dollars, views the trade details on a screen branded with Bank XYZ’s logo. Bank XYZ executes the trade, buying Swedish Krona and selling U.S. Dollar. CitiFX White Label then automatically creates a back-to-back trade with Citibank, selling Swedish Krona and buying U.S. Dollar, to offload Bank XYZ’s position.

As a Citibank® CLS Third Party client, Bank XYZ would typically submit the back-to-back trade to Citibank for settlement in CLS Bank. However, because the counterparty for the back-to-back trade is a Citibank branch and both parties have accounts with Citibank, the trade can be settled “on-us” through a simple internal book transfer (if the client opts to do so).

Bank XYZ continues to support their customer’s FX needs by leveraging Citibank’s FX trading infrastructure and taking advantage of the more competitive rates Citibank can offer as an FX liquidity provider. The “on-us” settlement provides additional cost-savings through reduced book transfer charges.

#### CitiFX White Label: A Seamless Front-end Platform for all Trades

With CitiFX White Label, clients can choose, by currency pair, how to manage their price risk and position. For example, while Bank XYZ chooses to use the full CitiFX White Label solution (including the automated back-to-back trading mechanism) for some currencies, they can also use the solution in a more limited way for the currencies they trade themselves on the interbank market. Bank XYZ’s customers utilize one Internet-based front-end platform for all trading regardless of whether Bank XYZ manages their own position or off lays it to Citibank.

#### The Net Outcome: A Single Funding Solution and Consolidated Liquidity

While CitiFX White Label brings client banks the flexibility in outsourcing FX trading, participation in CLS makes funding, settlement and liquidity management more efficient. CLS third party clients benefit from a netting effect. Rather than make multiple payments throughout the day to cover each individual transaction, they make



one payment to their CLS Settlement Member in each currency at the end of the day. Bank XYZ in our example (which uses Citibank for both CLS settlement services and FX trading via CitiFX White Label) further benefits from the netting of all of their trades. At the end of day, Bank XYZ has a single net position in each currency and makes only one payment to Citibank in each currency – regardless of whether the trade was a back-to-back deal with Citibank or with another interbank counterparty. To support the single funding process, Citibank provides consolidated liquidity – one credit line that covers all of their settlement needs.

### Leveraging Strategic FX Outsourcing Solutions

While CLS has already proven to be a catalyst – transforming how FX is settled – FX white label solutions could, in the future, have a profound impact on how FX is traded. Banks should conduct cost/benefit analyses to determine the value of outsourcing their back-offices to a CLS Settlement Member, as a Third Party, and of using a white label solution to fully or partially outsource FX trading. They should also consider the synergies they can gain using a single provider for both. Those banks that outsource both front and back-office functions to a single provider such as Citibank will reap additional benefits – the ability to manage funding, liquidity and settlement, in a more efficient, centralized way.

## CONTACT INFORMATION

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**Marion Lang**, Director, Citigroup, is the Global FX Sales Manager for Banks. In previous assignments, Marion was the Business Manager for Sales in Global Foreign Exchange, and has experience in transactional banking, exchange traded futures and options and relationship management.

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### Benefits of CitiFX® White Label

CitiFX White Label offers 24/6 availability for spot, forward and swap transactions in 100 currencies and all derived cross-currency pairs. With CitiFX White Label, your customers deal directly with you and use screens branded with your logo.

### Customer Module

Your customers receive instant on-screen confirmation of trades done online and via telephone (as soon as your sales desk enters the deal). They also benefit from flexible reporting capabilities and the option to integrate the application with their in-house applications.

### Sales Desk Module

The Sales Desk module provides an efficient, workflow-based deal booking solution enabling your sales staff to reduce time spent on administrative tasks and increase time spent adding value to client relationships.

### Trader Module

The Trader module provides flexible liquidity management, allowing you to make prices for your customers and take risk for selected currencies. You can also easily arrange for auto-cover to ensure continuous coverage for your customers if a trader is away.

### Security

The system is hosted by a third party technology company and offers a high level of security to clients. Citigroup has no access to your customer data; you retain sole access to spread information, user IDs, client names, and transaction details.

CLS is a registered trademark of CLS UK Intermediate Holdings Ltd.

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