



Robert Close
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October 6, 2006

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Policy on Payments System Risk
Docket No. OP1259

Dear Ms. Johnson:

CLS Bank International ("CLS Bank") appreciates the opportunity to provide comments to the Board of Governors of the Federal Reserve System on the proposed changes to Part I of the Policy on Payments System Risk (PSR policy) addressing risk management in payments and settlement systems. CLS Bank International supports the three proposed amendments: (1) incorporating the Recommendations for Central Counterparties as the Board's minimum standards for central counterparties, (2) clarifying the scope of the revisions in regards to central counterparties, and (3) establishing an expectation for self assessments against the Core Principles for Systemically Important Payment Systems, Recommendations for Securities Settlement Systems, or Recommendations for Central Counterparties, for the purpose of demonstrating the extent to which these systems meet the principles or minimum standards.

CLS Bank International supports the adoption of the Recommendations for Central Counterparties as an important step in contributing to the stability of the financial markets which is comprised of various payment and settlement systems within different jurisdictions and under different supervisory regimes. We concur with the belief that given the role and responsibilities of central counterparties, their risk management practices can have important implications for the financial markets and, as such, believe that these minimum standards have to be consistent with those applied to systemically important payment and securities systems and provide a holistic approach for important market infrastructures in managing their risks.

CLS Bank also maintains that the proposal for systemically important systems to conduct self assessments against the applicable minimum standards is a commendable and constructive objective. As you are aware, CLS Bank has conducted such assessments for several years as it has expanded its services. These self assessments have been reviewed with the Risk Management Committee of CLS Bank and the CPSS Sub-group on Foreign Exchange Settlement Risk. We support the proposed protocol for reviewing the self assessment with senior management and the board of directors of the company and believe that the provision for

the Federal Reserve to provide feedback to the system's management and board of directors is an important component in contributing to the value of such assessment.

To make such disclosures useful, it will be important for the audience to have confidence that each system is approaching these reviews in a comprehensive, consistent, and objective manner. Although the objective of the self assessment is to provide information so that participants in the system and other interested parties may evaluate the system against internationally accepted minimum standards, such disclosure may not be extensive enough to provide a comprehensive understanding. To achieve that level of understanding, we believe that the self assessment would have to be read or interpreted against the rules and organizational documents of the system. That suggests that the audience with such access would be limited, e.g., to participants or members of the system.

As stated previously, we believe that in order for such self assessments to be useful, it is important that they are comparable. The proposal suggests that each system's operator would rate the level of its compliance with each of the principles, suggesting classification of "observed, broadly observed, partly observed or non-observed". There is a risk that such ratings may be applied subjectively and make comparison across systems difficult. CLS Bank believes that this risk is mitigated given the proposed protocol for systemically important systems subject to the supervision of the Federal Reserve; however, it is unclear whether similar protocols would be adopted by other supervisors.

We hope these comments are helpful and would be available to address any questions or comments you may have.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert Close", with a horizontal line underneath.

Robert Close
President and Chief Executive Officer

cc: Anne T. Noonan, EVP, Risk Management and Regulatory Affairs