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Ms. Jennifer J. Johnson  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, DC 20551

May 19, 2011

Re: Notice of Proposed Rulemaking Regarding Financial Market Utilities  
(Docket No. R-1412 and RIN No. 7100-AD71)

Dear Ms. Johnson:

CLS Bank International ("CLS") welcomes the opportunity to share its views on the proposed rulemaking under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("DFA"), specifically the adoption of part 234 ("Regulation HH") by the Board of Governors of the Federal Reserve System ("Board") to establish risk-management standards for payment, clearing and settlement activities of designated financial market utilities ("FMUs").

CLS supports the Board's adoption of the risk management standards issued by the Committee on Payment and Settlement Systems ("CPSS"), specifically the *Core Principles for Systemically Important Payment Systems* ("CPSIPS"), for FMUs that a payment systems. CLS views these standards as achieving statutory objectives to promote robust risk management, promote safety and soundness, reduce systemic risks and support the stability of the broader financial system. Additionally, it achieves these objectives in a manner that is consistent with efforts to promote collaboration and coordination among regulatory authorities globally.

### **Background**

CLS is the provider of a global payment-versus-payment ("PVP") settlement system for FX. The creation of this settlement service was the result of unprecedented cooperation and effort amongst the global financial community in response to regulatory concerns regarding the potential for FX settlement to be a major source of systemic risk. Last year, CLS settled an average daily volume of nearly 800,000 payment instructions (1.78 million peak), and an average daily value of over 4 trillion USD equivalent (peak 10.3 trillion).

CLS Bank International is an Edge corporation, chartered by the Board under Section 25A of the United States Federal Reserve Act, as amended. As such, CLS Bank is regulated and supervised by the Federal Reserve as a bank under a program of ongoing supervision, combining full-scope and targeted on-site examinations with a variety of off-site monitoring activities. CLS Bank is located in New York.



In addition to the Federal Reserve's regulation and supervision of CLS, the central banks whose currencies are settled in the CLS system have established a cooperative oversight arrangement as a mechanism for these central banks to fulfill their responsibilities to promote safety, efficiency, and stability in the local markets and payment systems in which CLS participates. The *Protocol for Cooperative Oversight of CLS* is designed to facilitate comprehensive oversight of CLS, enhance oversight efficiency by minimizing potential burdens on CLS and duplication of effort by the participating central banks, foster consistent and transparent central bank communications with CLS, enhance transparency among the participating central banks regarding the development and implementation of international and domestic policies applicable to CLS, and support fully informed judgments when participating central banks make their oversight assessments and decisions regarding CLS.<sup>1</sup> The Federal Reserve organizes and administers the CLS Oversight Committee, which is the primary forum for the participating central banks to carry out their cooperative oversight of CLS.

#### **CPSIPS Have Proven to be Effective**

Effective financial systems depend on safe and efficient payment systems and, in the context of FX, the CLS system has been structured to minimize the economic disturbances that could otherwise disrupt domestic and international financial markets. The Federal Reserve and the CLS Oversight Committee have historically used, and continue to use, the CPSIPS as guidelines for the design and operation of safer and more efficient systemically important payment systems such as the CLS system by suggesting key characteristics for these systems.

CLS represents the successful outcome of the efforts of the private sector to develop and operate a global, cross-border payment system of systemic importance, in close collaboration with the central banks, and in full recognition that the standards set forth in the CPSIP should be met or exceeded at all times.<sup>2</sup> The robustness and resilience of the CLS system has been consistently demonstrated over the years, most significantly during the recent financial crisis. CLS has been widely credited with maintaining confidence for continued interbank trading and settlement of FX, the largest financial market, during that time.

Based on the foregoing, CLS supports the Board's adoption in Regulation HH of the CPSIPS as the appropriate minimum standards for payment systems, recognizing that the Board may, by order, impose heightened risk-management standards for an individual FMU in accordance with the risks presented by the FMU.

In addition, CLS supports the continued interpretation by the Board of these standards in a manner that is consistent with their interpretation and application under the Board's Policy on Payment System Risk ("PSR policy"). Because the interpretation and application of the PSR policy has been well understood by CLS, we do not view as necessary any further definition of the standards in Regulation HH. We do, however, encourage the Board to continue to use the CPSS documents as a source of further information for purposes of Regulation HH, as well as the PSR policy.

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<sup>1</sup> [http://www.federalreserve.gov/paymentsystems/cls\\_protocol.htm](http://www.federalreserve.gov/paymentsystems/cls_protocol.htm).

<sup>2</sup> In line with the current expectations of the Federal Reserve and the CLS Oversight Committee, CLS documents its self-assessment of compliance with the CPSIPS and makes this publicly available on its corporate website: <http://www.cls-group.com/ABOUT/Pages/WhatIsCLS.aspx>.



**Proposed Enhanced Standards Should Not be Considered at this Time**

We wish to note our support of the recent efforts of CPSS and Technical Committee of the International Organization of Securities Commissions (“IOSCO”) to review the CPSIPS and the standards for other financial market infrastructures such as central securities depositories, securities settlement systems, central counterparties and trade repositories. In March of this year, the CPSS and IOSCO released a consultative report that proposed a set of new, enhanced standards for these infrastructures. This review specifically takes into consideration both the financial crisis, which highlighted important lessons for effective risk management, and the experience of more normal payment system operations since these standards were originally published. While we recognize that the proposed enhanced standards are relevant to Regulation HH, we believe it would be premature to consider them in the context of Regulation HH until such standards are finalized by the central banks and market regulators around the world. CLS is currently analyzing the implications of the proposed enhanced standards (including but not limited to those relating to the liquidity risk standard, i.e., a cover one or cover two minimum requirement) in order to provide comments to the CPSS and IOSCO during the consultation period ending July 29<sup>th</sup>.

\* \* \*

We appreciate your consideration of our comments. Please do not hesitate to contact me should you have any questions or wish to discuss these comments.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ala A. Boyin'. The signature is written in a cursive style.