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July 5, 2019

Via email

Ann E. Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, DC 20551  
regs.comments@federalreserve.gov

**Re: Potential Modifications to the Federal Reserve Banks' National Settlement Service and Fedwire Funds Service To Support Enhancements to the Same-Day ACH Service and Corresponding Changes to the Federal Reserve Policy on Payment System Risk, Request for Comments (Docket No. OP-1664)**

Dear Ms. Misback:

CLS Bank International ("CLS") appreciates the opportunity to comment on the *Potential Modifications to the Federal Reserve Banks' National Settlement Service and Fedwire Funds Service To Support Enhancements to the Same-Day ACH Service and Corresponding Changes to the Federal Reserve Policy on Payment System Risk* (the "Request for Comment"), issued by the Board of Governors of the Federal Reserve System (the "Board") and published in the Federal Register on May 16, 2019.<sup>1</sup>

CLS was established by the private sector, in cooperation with a number of central banks, to mitigate the settlement risk (loss of principal) associated with the settlement of payments relating to foreign exchange transactions. CLS operates the world's largest multicurrency cash settlement system (the "CLS system") and provides payment-versus-payment ("PvP") settlement in 18 currencies directly to 71 members, some of which provide access to the CLS system for over 25,000 third-party institutions.

As an Edge Act corporation established under Section 25A of the Federal Reserve Act, CLS is regulated and supervised by the Board and the Federal Reserve Bank of New York (collectively, the "Federal Reserve"). Additionally, the central banks whose currencies are settled in the CLS system have established the CLS Oversight Committee, organized and administered by the Federal Reserve pursuant to the *Protocol for the Cooperative Oversight Arrangement of CLS*,<sup>2</sup> as a mechanism to carry out the central banks' individual responsibilities to promote safety, efficiency, and stability in the local markets and payments systems in which CLS participates.

As a systemically important financial market infrastructure ("FMI"), CLS is subject to the CPMI-IOSCO *Principles for financial market infrastructures* (the "PFMI"), as applicable to payment systems. In addition, CLS was

<sup>1</sup> 84 Fed. Reg. 22123.

<sup>2</sup> [https://www.federalreserve.gov/paymentsystems/cls\\_protocol.htm](https://www.federalreserve.gov/paymentsystems/cls_protocol.htm).

designated a systemically important financial market utility ("DFMU") by the Financial Stability Oversight Council in July 2012 under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Board is CLS's "Supervisory Agency" (as defined by the Dodd-Frank Act), and CLS is subject to the risk management standards set forth in Regulation HH, which are based on the PFMI.

\* \* \*

CLS generally supports the Board's proposal to extend the operating hours of the Fedwire Funds Service, in this case, to facilitate the later same-day ACH window, but also more generally. Specifically, CLS recommends that the Board consider extending the operating hours of Fedwire to 24 hours a day on all business days,<sup>3</sup> which would further increase the overlap with the operating hours of large-value payment systems in other countries and, in turn, support the elimination of current risks associated with non-PvP settlement for intraday transfers between those systems.

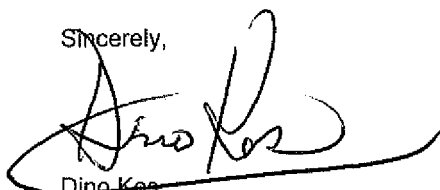
**Q2: Would institutions and their customers use expanded hours of NSS and the Fedwire Funds Service for purposes unrelated to the later same-day ACH window? If so, how?**

In 2019, CLS plans to launch CLSNow<sup>4</sup> – a new service that will allow participants to mitigate settlement risk associated with certain same-day FX transactions. The service will facilitate the exchange of liquidity across currencies with PvP settlement, providing reductions in settlement risk and improved liquidity management. CLSNow will initially settle payment instructions in four currencies (CAD, EUR, GBP, and USD); however, the objective is to eventually expand the service to all CLS-eligible currencies, based on market demand. Unlike the current CLS settlement service, CLSNow will not utilize specific payment grids and timelines.<sup>5</sup> Instead, the service will be able to settle payment instructions for a given currency pair so long as the hours of the respective RTGS systems overlap. Extending the operating hours of Fedwire (as well as the other applicable RTGS systems) to 24x5.5 would maximize the window in which participants could utilize the service and enable CLSNow to realize its full potential to mitigate systemic risk in the global FX market.

\* \* \*

We appreciate the Board's consideration of the views set forth in this letter and would welcome the opportunity to discuss any of these comments in further detail.

Sincerely,



Dino Koo  
Chief Regulatory Officer

<sup>3</sup> CLS does not believe there is a demand for 24x7 operating hours; 24x5.5 with scheduled periods of weekend downtime is sufficient to facilitate the settlement of high-value FX payments. The drivers for 24x7 capabilities are primarily in the retail space and the additional redundancy needed to support this timeline would add complexity and impose costs on wholesale market participants.

<sup>4</sup> Launch of the CLSNow service is subject to regulatory approval.

<sup>5</sup> Although the CLS settlement service remains open 24x5.5, settlement and funding take place each business day during a defined five-hour window (7:00-12:00 CET). Therefore, extending the operating hours of Fedwire would not otherwise impact the CLS settlement service in this regard.

cc: Dan Lennon, US Head of Operations  
Amolak Roopra, Senior Product Manager  
Craig Rubin, Senior Legal Counsel  
Kerry F. Denerstein, Regulatory Affairs Lead