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Via email: regs.comments@federalreserve.gov (Docket number, OP-1613)

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: Federal Reserve Board's request for comment on notice of adoption of message format and proposal to migrate the Fedwire Funds Service to the ISO 20022

Dear Sir/Madam,

CLS Bank International ("CLS") welcomes the opportunity to respond to the Federal Reserve Board's ("FRB") proposal to migrate the Fedwire Funds Service to the ISO 20022 message format on a single day and series of consultation questions as outlined (in Federal Register Vol. 86, No. 191 issued on October 6, 2021) by The Board of Governors of the Federal Reserve System ("FR Board").

Background

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 over 70 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 FR Board and the Federal Reserve Bank of New York ("FRBNY") (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*,¹ 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 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

¹ https://www.federalreserve.gov/paymentsystems/cls_protocol.htm.

and Consumer Protection Act (the “Dodd-Frank Act”). The FRBNY conducts day-to-day supervision of CLS, as delegated by the FR Board and CLS is subject to the risk management standards set forth in Regulation HH.

Specific Comments on the Proposal

CLS has provided responses to each of the eight consultation questions posed by the FRB, as well as specific comments, as outlined below, in areas of the Proposal where it believes it can provide useful input.

Q1: Do you support the single-day implementation strategy? If not, what implementation strategy would be optimal?

Yes, CLS can support a single-day implementation strategy. There is no risk or benefit in moving to a single 2023 event from a CLS perspective. CLS will be supporting a single-day implementation strategy for a number of other RTGS ISO 2022 migrations with other RTGS operators / central banks that are scheduled to take place between 2022 and 2025.

Q2: Should the Reserve Banks implement ISO 2022 for the Fedwire Funds Service in November 2023? If not, what would be your preferred implementation date? Please provide the rationale behind your preference.

CLS response to this question has been sent to the Reserve Bank confidentially.

Q3: Should the Reserve Banks and TCH implement ISO 2022 for the Fedwire Funds Service and CHIPS on the same day?

CLS is not a CHIPS participant, and therefore CLS’s preference is that the ISO 2022 for Fedwire Funds and CHIPS migrations are not completed on the same weekend due to the risk of impact to the wider CLS ecosystem, including CLS’s Member Banks, if issues were encountered during the cutover.

Q4: Do you have any resource constraints or other challenges that would impact your ability to prepare for the implementation of ISO 2022 for the Fedwire Funds Service? (For example, some Fedwire Funds Service participants and software vendors may also be preparing for the ISO 2022 implementations for SWIFT and other payment system operators, which begin in November 2022, and the Reserve Banks’ launch of the FedNow Service in 2023.)

CLS response to this question has been sent to the Reserve Bank confidentially.

Q5: Do you have any concerns about the Reserve Banks' proposed testing strategy and requirements?

CLS does not have any specific concerns about the Reserve Banks' proposed testing strategy, although does have an overarching concern regarding the timeframe required to complete the requirements, detailed below.

Testing

In regards to the introduction of the second DIT environment by the Reserve Banks', this is not a requirement for CLS to complete testing.

Requirements

In CLS's experiences to date, it has taken a Central Bank / RTGS operator on average between six to nine months to reach an industry wide message specification requirements baseline. Although some high level message requirements were published in a Reserve Bank notice vol. 83, no. 129, dated July 5, 2018, there is still a considerable amount of work to be done in order to syndicate and baseline detailed message specification requirements for a new US dollar ISO 20022 compliant RTGS system. CLS is concerned that the proposed live date of November 2023 will be challenging for the industry considering how much work still needs to be completed in order to reach a baseline set of requirements and then complete all the subsequent activities. Once the requirements have been baselined, all Fedwire participants will then have to complete their development and internal testing work, and participate in any industry wide testing prior to a November 2023 go live. If the requirements are baselined at some point between July and October 2022, that would only leave 12 to 15 months to complete all these complex activities.

With regards to the specific message types, CLS has the below comments on the Reserve Banks' proposed requirements for adoption of ISO20022 message format for Fedwire Funds Service:

1. ISO20022 Message Set:

a. camt.053 (Account Statements)

The camt.053 message is used by the industry and other central banks to provide end-of-day account statements. This message is not part of the ISO 20022 message set proposed by Reserve Bank in table 2 of notice vol. 83, no. 129, dated July 5, 2018. CLS expects the Reserve Bank to offer the camt.053 message for end-of-day account statements, in line with the other ISO 20022 compliant RTGS systems and the High Value Payments System Plus ("HVPS+") industry guidelines.

b. camt.035 (Proprietary Format Investigation)

The industry standard for ISO 20022 investigation messages is the camt.029 (resolution of investigation) which is used in conjunction with camt.056 (request for cancellation) to manage exceptions and the investigation of payments.

According table 2 of the Reserve Banks's notice vol. 83, no. 129, dated July 5, 2018, the Reserve Bank would appear to be planning to use the camt.035 message to manage investigations related to a payment instead of a camt.029 message. During the detailed message specification review phase of the project, CLS will question whether camt.035 is the correct message for this scenario and whether the Reserve Bank should use the camt.029 message instead as per what other RTGS operators plan to use and as per industry standard.

2. CLS Time field in pacs.009 messages:

In accordance with HVPS+ and Cross Border Payments and Reporting Plus ("CBPR+")

industry guidelines, CLS Members will be able to populate the CLSTIME codeword (<CLSTm>) in the Settlement Time Request (<SttlmTmReq>) tag of the pacs.009 in order to communicate to their nostro when the nostro is expected to credit CLS Bank's account at the Central Bank for a pay-in to CLS.

The full path for <CLSTm> is:
/Document/FICdtTrf/CdtTrfTxInf/SttlmTmReq/CLSTm

Although the CLSTIME codeword is not mandatory for the pacs.009 sent to CLS by the nostro, but as the pacs.009 sent to the nostro from the CLS Member is likely to contain it, the nostro will usually also include the CLSTIME codeword in the pacs.009 sent to CLS. Therefore, CLS expects the Reserve Bank to allow the use of the CLSTIME codeword in the Settlement Time Request tag for pacs.009 messages that are sent to the Reserve Bank's new ISO 20022 RTGS system.

3. Local instrument field in pacs.009 messages:

In accordance with HVPS+ and CBPR+ industry guidelines, participants of CLS's CLSClearedFX service will use LclInstrm/Cd to provide the Central Counterparty ("CCP") CCP code to CLS in pacs.009 payments via their nostro. This code is mandatory for the CLSClearedFX service and this is the industry acknowledged location for the two codes published in the ISO external list for Local Instrument, namely the "CLSCCPLCH" and "CLSCCPERX" codewords.

Please note that when the Reserve Bank publishes the final message guidelines for ISO20022 format, CLS will perform a thorough impact analysis for the adoption of ISO20022 message format and may have more comments/questions on requirements.

Q6: How much time would you need to test your ISO 20022 messages in the MyStandards Readiness Portal before testing in the new second DIT environment?

CLS will need at least 1 – 2 weeks to test our ISO 20022 messages in the MyStandards Readiness Portal before testing in the new second DIT environment.

Q7: Would nine months of testing ISO 20022 messages in the new second DIT environment be sufficient? If not, what is the minimum amount of testing you would require in the second DIT environment before the ISO 20022 implementation date?

Yes, nine months will be sufficient for CLS to complete testing in the second DIT environment. CLS also notes that there will be an overlap of testing in the second DIT environment and the Prod environment on selected Saturdays. Regarding the second DIT environment, as mentioned, CLS does not require this for testing, however if required to test against it, CLS may have to consider the technical aspect of connecting to it as both test environment connections talk to the same test environment at the FRB. As a result, CLS hopes to be able to simply repoint these connections to a different IP address to connect to one environment or another, and not need to build anything new to test against.

Q8: Do you have any concerns about (i) proposed backout strategy for the ISO 20022 changes on the Saturday before the implementation date or (ii) the proposed fix-in-place strategy after on or after the implementation date?

In summary, no concerns at this time.

In terms of the back-out strategy, as is stated we would need to develop the capability to activate and deactivate the ISO messaging without our systems in order to support production testing ahead of the

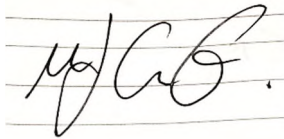
implementation date. We would envisage the same process would be used in the event the Reserve Banks employed their backout strategy. Timely communication of the decision to backout will be important to ensure we have sufficient time to perform our own deactivation steps during our planned weekend maintenance window.

In terms of the fix-in-place strategy we are supportive since the certainty this provides from a business and technical operations perspective is welcome. We note however that the reduction in complexity from a CLS side is likely to be minimal since we will anyway have to develop the ability to switch our systems configuration between the new and legacy message formats to support both pre-implementation production testing and in support the backout strategy. Technically we expect this capability to remain in place for a short period post-implementation.

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CLS greatly appreciates the opportunity to submit these comments and remains available to discuss any of these comments in further detail, as needed.

Sincerely,



Max Claret

CLS RTGS Strategic Hub Project Delivery Manager