

CLS BANK INTERNATIONAL, GAYNOR WOOD

Proposal and Comment Information

Title: EGRPRA: Rules of Procedure; Safety and Soundness; and Securities, OP-1828

Comment ID: FR-0000-0117-03-C10

Subject

CLS Bank Response to Docket No. OP-1828 Regulatory Publication and Review Under the Economic Growth and Regulatory Paperwork Reduction Act of 1996

Submitter Information

Organization Name: CLS Bank International

Organization Type: Company

Name: Gaynor Wood

Submitted Date: 03/04/2025

Please find attached CLS Bank's comment letter on regulations in the categories of Rules of Procedure; Safety and Soundness; and Securities.

Best,
Irene

Irene Mustich (she/her)
Director, Regulatory Relations
D +
M +

CLS Bank International
cls-group.com<<https://cls-group.com/>>

My working day may not be your working day. Please do not feel obliged to reply to this email outside of your normal working hours.

Gaynor Wood
General Counsel
GWood@cls-services.com

March 04, 2025

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 (Docket No. OP-1828)

Re: Regulatory Publication and Review Under the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (Docket No. OP-1828)

To whom it may concern,

CLS Bank International ("CLS") welcomes the opportunity to respond to the Board of Governors of the Federal Reserve System's (the "Board") request for comments pursuant to the Regulatory Publication and Review Under the Economic Growth and Regulatory Paperwork Reduction Act of 1996 issued in December 2024 (the "Consultation Paper").

CLS is a special-purpose corporation organized under the laws of the United States of America and is regulated and supervised by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York (collectively, the "Federal Reserve"). CLS was designated a systemically important financial market utility ("DFMU") in 2012 by the United States Financial Stability Oversight Council under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act")¹. CLS is subject to the risk management standards set forth in Regulation HH.

We have reviewed the request for comments, particularly in the context of Regulation HH, and would like to share our perspective under the category of 'Overarching Approaches / Flexibilities.' Specifically, we have identified one particular section of the rule that could benefit further review to reduce the regulatory burden and / or introduce greater flexibility.

¹ The Board of Governors of the Federal Reserve System is CLS's Supervisory Agency (as defined by the Dodd-Frank Act).



1. Regulation HH Business Continuity Management [12 C.F.R. § 234.3 (a)(17)(viii) (B) & (C)]

- *(a)(17)(viii)(B) Is designed to enable critical systems, including information technology systems, to recover and resume critical operations and services no later than two hours following disruptive events;*
- *(a)(17)(viii)(C) Is designed to enable it to complete settlement by the end of the day of the disruption, even in case of extreme circumstances.*

CLS believes the current rule, under 12 C.F.R. § 234.3(a)(17)(viii)(B) and (C), imposes impractical expectation on DMFUs to resume critical operations and services no later than two hours following a disruptive event, to complete settlement by the end of the day of the disruption, in cases of extreme circumstances.

In scenarios deemed 'extreme but plausible' meeting this objective may be either unattainable or undesirable, as the priority should be ensuring a safe and stable recovery. Therefore, we propose that the Board consider a DMFU's Maximum Tolerable Downtime instead.

We would welcome the opportunity to collaborate with the Board to define the point at which a disruption to critical operations and services results in intolerable harm. This approach would provide a more effective measure of recovery in extreme but plausible scenarios, ensuring that appropriate consideration is made before re-establishing availability. Given the challenges posed by the current two-hour Recovery Time Objective (RTO), this shift would also support a safe and more pragmatic recovery process.

Furthermore, in light of evolving risks and the advancement in technology, shifting the focus towards understanding a DMFU's impact tolerance would allow for more efficient contingency planning and mitigation strategies. This would ultimately benefit both our members and the markets we serve.

This approach aligns with the UK's current policies on Operational Resilience and the Board's guidance on Sound Practices to strengthen Operational Resilience, which emphasizes the importance of understanding a firm's impact tolerance.

Thus, we propose that in cases of 'extreme but plausible circumstances,' a DMFU has identified its 'impact tolerance levels' to recover and resume critical operations and services in a safe manner before causing undue harm to itself and the markets it serves.

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

Sincerely,

Gaynor Wood
General Counsel

CC: Marc Bayle De Jesse, Chief Executive Officer
John Hagon, Chief Operating Officer
Deborah Hrvatin, Chief Risk Officer
Gavin Brown, Head of Enterprise Resilience