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Electronically

Secretariat of the Committee on Payments and Market Infrastructures
Bank for International Settlements
CH-4002
Basel, Switzerland

Re: CLS Bank International's Response to the Committee on Payments and Market Infrastructures' Consultative Document, "Correspondent banking" (October 2015)

Dear Sirs/Mesdames,

CLS Bank International ("CLS") welcomes the opportunity to submit these comments in response to the Committee on Payments and Market Infrastructures' ("CPMI") consultative document, "Correspondent banking" October 2015 (the "Consultative Document").

CLS is the operator of a financial market infrastructure ("FMI") that is the predominant settlement system for foreign exchange transactions (the "CLS System"). The CLS System is the world's largest multicurrency cash settlement system, providing payment-versus-payment settlement in 18 currencies directly to 64 Settlement Member banks ("Members") and indirectly to their 18,000 clients.

CLS is an Edge Act corporation regulated and supervised by the Federal Reserve, and has been designated a systemically important financial market utility by the United States Financial Stability Oversight Council. In addition, the central banks whose currencies are settled in the CLS System have established a cooperative oversight arrangement, the CLS Oversight Committee ("OC"), organized and administered by the Federal Reserve.¹ The OC provides the participating central banks a mechanism to carry out their individual responsibilities for the safety and efficiency of payment and settlement systems, and the stability of the financial system. As a systemically important payment system, CLS is also subject to the April 2012

¹ The OC Protocol is available at: www.federalreserve.gov/paymentsystems/cls_protocol.htm



Principles for financial market infrastructure (PFMI). In accordance with the PFMI and the associated *PFMI: disclosure framework and assessment methodology*, CLS publishes a PFMI Disclosure Framework.² The framework describes our approach to observing applicable principles during daily operations as a payments system in alignment with the expectations and requirements of our regulators.

CLS would like to express its broad support for the Consultative Document and its appreciation for the CPMI's focus on alleviating some of the concerns that have led to the current trends in correspondent banking, which is critical to the proper functioning of the banking sector and the economy as a whole. CLS also strongly agrees with the statement in the Consultative Document that, "...the issues surrounding the withdrawal from correspondent banking are very complex and that costs related to AML/CFT compliance are only one of the elements that have to be considered...."

As an international FMI that is predominantly concerned with cross-border payment activities, the CLS System relies extensively on correspondent banking services. All of our Members rely on one or more correspondent banking relationships across the 18 currencies to meet their CLS-related funding requirements on a daily basis.

Members are expected to meet their CLS-related funding requirements in a timely manner in all circumstances. Under CLS Bank Rule 2.1.1 (e, iii), each Member needs "...adequate contingency plans in the event of its inability, or any of its Nostro Agents' inability, to satisfy the funding requirements." The failure of a Member to meet its funding requirements would be considered a participant default and would trigger CLS's default procedures.³ Depending on the nature and scope as well as severity of the specific circumstance, these could potentially include drawing down on CLS's committed liquidity facilities or making payments to non-defaulting Members in alternative currencies, and could significantly impact the broader financial markets.

In the interest of systemic stability, CLS has encouraged Members that rely on correspondent banks to ensure that they can meet their CLS-related funding requirements through alternative means, including other correspondent banking relationships (whether existing or new) should their primary correspondent bank experience operational or other issues that cause payment delays. However, Members have noted great difficulty in utilizing or establishing alternative correspondent banking relationships, likely for some of the issues discussed in the Consultative Document. The difficulty in establishing alternative correspondent banking relationships may be particularly exacerbated by the fact that these are back-up accounts which will rarely, if ever, be utilized.

² CLS's PFMI Disclosure Framework is available at: <http://www.cls-group.com/About/CG/Documents/PFMI%20Disclosure%20Framework%202014.pdf>

³ A more fulsome discussion of CLS's default procedures is available in the response under Principle 13 in CLS's PFMI Disclosure Framework.



As such, CLS is increasingly concerned about fragmentation as well as concentration in correspondent banking, and the subsequent systemic risks these trends may introduce. These growing challenges are coupled with countervailing pressures creating risks that must be assessed and mitigated on an international level. We therefore urge the CPMI to additionally consider the broader causes and consequences of these trends for cross-border payments generally, as well as the specific impacts on FMIs engaged in cross-border payment activities.

Please do not hesitate to contact us if you have any questions regarding this letter.

Sincerely,

A handwritten signature in black ink, appearing to read "Dino Kos", written over a horizontal line.

Dino Kos

cc: Irene Mustich, Associate Director, Regulatory Affairs, CLS Bank International
Lauren Alter-Baumann, Managing Director, Legal and Regulatory Strategic Affairs,
CLS Bank International