14 January 2022

Via email: cpmi@bis.org

Re: CPMI consultative report on extending and aligning payment system operating hours for cross-border payments

Dear Sirs/Madams,

CLS Bank International ("CLS") welcomes the opportunity to respond to the consultative report on extending and aligning payment system operating hours, published by the Committee on Payments and Market Infrastructures ("CPMI") on 18 November 2021.

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" or "CLSSettlement") and provides payment-versus-payment ("PvP") settlement in 18 currencies directly to over 70 members, some of whom provide access to the CLS system for over 28,000 third-party institutions.

As an Edge Act corporation established under Section 25A of the Federal Reserve Act, CLS is regulated and supervised by the Federal Reserve 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. CLS is also subject to the risk management standards set forth in Regulation HH. 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 and Consumer Protection Act (the "Dodd-Frank Act").

CLS is collaborating with twelve of its settlement members and the broader FX market to determine the optimal approach(es) to address settlement risk for currencies not currently supported by CLSSettlement. This includes, but is not limited to, the potential development of an alternative PvP service. Progress on

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

this work is being shared with the FSB Cross-Border Payments Roadmap building blocks 9 and 12 workstreams.

Responses to Specific Questions

Q3: What benefits for cross-border payments other than speed do you perceive would accrue from an extension of RTGS operating hours? What additional domestic benefits for a jurisdiction do you perceive?

CLS generally supports efforts to extend and align operating hours of RTGS systems to enhance crossborder payments. Importantly, we believe cross-border payment involving two or more currencies should be settled on a payment-versus-payment basis whenever possible and we recommend the FSB and other policymakers should set PVP settlement as a cornerstone principle for cross border payments more generally. However, payment-versus-payment can only happen if settlement of the two currencies is simultaneous, which necessitates the two RTGS systems to be open and operational. Extending hours for RTGS systems will create longer windows of overlap to permit PVP settlement for a broader range of currency pairs and would enable new and improved PvP mechanisms to address this concern.

In addition, longer RTGS operating hour would have other benefits for CLS. Specifically, it would increase the time available to respond to any system disruptions and complete the day's settlement activity. It would also result in less of a need for bespoke RTGS extension requests. Moreover, extending operating hours opens the possibility for more currencies to be involved in a concurrent multi-lateral settlement service.

Q4: How well do the three identified end states capture key scenarios that individual central banks/RTGS system operators should consider as they assess current RTGS operating hours and plan for the future? What additional end states or refinements to the end states would you suggest?

Some market infrastructures, such as CLS, utilize weekends to perform critical system maintenance. Therefore, for all three end states, CLS recommends that central banks/RTGS systems assure that critical FMIs still have the weekend windows to enable necessary system maintenance.

Q5. Which end state, out of the three identified or another one you may want to consider, do you believe strikes the best balance between improving cross-border payments and managing the associated challenges?

CLS believes that end state 1 (extended hours on current operating days) strikes the best balance between improving cross-border payments and managing the associated challenges. Extending operating hours would increase the period available for PvP settlement and therefore help mitigate settlement risk for cross-border, cross-currency payments. As explained below, we believe this goal can be achieved without expanding into current non-operating days or 24/7 operations.

Q7. As a result of end state 3, which involves 24/7 RTGS operating hours, do you anticipate demand for 24/7 operations of RTGS systems in the future? If so, what do you expect to be the main drivers and over what time horizon do you expect this to happen?

CLS does not anticipate demand for 24/7 operations in the wholesale market. The wholesale markets are influenced by a variety of factors above and beyond technological capabilities and RTGS operating hours, such as the availability of nostros to provide credit, opening hours of the money markets, and the ability to optimize funding to allow for operations during off-hours and weekends).

Q8. Would your organisation make use of and/or benefit from extended RTGS operating hours?

For CLS, its current CLSSettlement service commence at approximately 06:00 CET and typically concludes at 12:00 CET daily from Monday through Friday. This time window is not expected to change; therefore, any extension to daily hours will have minimal impact on this service. Additionally, CLSSettlement is not operated on weekends, so the introduction of weekend hours will have minimal impact (i.e., beyond the addition of weekend resources, if deemed necessary).

Although CLS does not anticipate any benefits in the near term and would not expect to change its hours of operations of CLSSettlement on account of extended RTGS operating hours, it does note that the RTGS systems that participate in CLS have in many instances extended their operating hours when they initially joined the service. In the future, if other central banks extend operating hours, they may find it easier to join CLSSettlement. There may be additional benefits for CLS to the extent it could leverage the increased availability of overlapping RTGS operating hours for future service offerings.

Q10: To what extent have the operational and risk considerations related to an extension of RTGS operating hours been adequately identified? What additional considerations would you consider relevant?

The CLSSettlement service operates within the common operating hours of 18 RTGS systems where transactions are settled on a gross basis, and funding on a netted on a multi-lateral basis across all participants. Hence it is critical for the participants to meet their pay in obligations on time as any delays can cause disruptions to the ecosystem resulting in requests for RTGS extensions and potentially unsettled transactions. Although the extension of RTGS operating hours can result in a mitigation of some of these issues and risks, new risks may be introduced for which mitigants have to be identified and developed. For example, in the wholesale market, there may be an increased risk of insufficient downtime for end-of-day processing and system maintenance windows. This reduces the time available to address any applicable issues. In addition, there may be reduced time available to deploy technological upgrades and changes that may result in issues post implementation.

CLS also notes that an increase in operating hours will increase the requirement for liquidity access and availability. An extension of RTGS operating hours should be accompanied by a commensurate availability of liquidity. Participants of the RTGS system should have the ability to execute transactions such as swaps, repos and other money market instruments to generate liquidity during the extended hours to facilitate cross border payments. In addition, the pricing considerations should be appropriate in order to facilitate participation during the extended hours.

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CLS greatly appreciates the opportunity to submit these responses and welcomes the opportunity to continue to engage with the CPMI Cross-border Payments Expansion Workstream as it continues its work to progress the objectives of the Financial Stability Board’s Cross-Border Payments Roadmap.