



CLS Risk Appetite Statement – Public Version

as of November 2016

www.cls-group.com



Purpose

CLS's Risk Appetite Statement articulates CLS's philosophy and approach to risk management, defines specific qualitative statements and quantitative tolerances, guides decision making and ensures appropriate governance around risk taking, for CLS Group Holdings, its subsidiaries, and its representative office(s) ("CLS").

Defining Risk Appetite at CLS

CLS's Risk Appetite is the type and the amount of risk that CLS is willing to accept, as recommended by management and approved by the Board of Directors. The Risk Appetite Statement clarifies those risks and associated tolerances that CLS must manage and, where appropriate, is prepared to accept in the pursuit of its vision and objectives.

CLS's Risk Appetite Statement is calibrated to be consistent with its vision statement to enhance financial stability by providing risk mitigation and operational services to the global FX market, its status as a systemically important payment system and financial market infrastructure ("FMI") under the CPMI-IOSCO Principles for Financial Market Infrastructures ("PFMI") and a systemically important financial market utility ("FMU") under the Dodd Frank Act, its risk capacity, business strategy and risk vision.

Guiding Principles that Underpin Risk Appetite at CLS

The objective of the Risk Appetite Statement is to define a balanced risk appetite from three key perspectives: CLS as a discrete entity, risks to Settlement Members (“SMs”), and broader systemic risks to the CLS ecosystem.

CLS recognizes that its business model is different from that of a traditional bank and the concept of risk appetite has to be tailored to the nature of its business. Most of the risks that CLS assumes are considered unrewarded risks and CLS’s overall risk philosophy is to eliminate or minimize such risks.

- We will only provide products and services:
 - that do not conflict with our vision statement and are aligned with our risk capacity, business strategy and risk vision;
 - without jeopardizing our capital position or the resilience of our services; and
 - where required, with the approval of our regulators.

Guiding Principles that Underpin Risk Appetite at CLS (Cont'd)

- We do not guarantee settlement, but our Rules, Member Handbook, Settlement Member Agreement, policies/frameworks and procedures are designed to deliver a global, resilient service that fosters financial stability.
- We shall maintain an enterprise-wide risk management framework to manage all applicable risk types.
- We understand our role as a FMI under the PFMI and as a designated FMU under the Dodd Frank Act and recognize our dual private and public obligations.

CLS Risk Appetite

Internal Risk Tolerances

CLS's Risk Appetite Statement contains specific qualitative and quantitative internal risk tolerances in the following areas to address risks arising from CLS as a standalone entity, CLS's SMs, and/or the broader CLS ecosystem:

Operational Risk

Compliance, Legal and Regulatory Risk

Market-FX Risk

Business and Strategic Risk

Funding Liquidity Risk

Systemic Risk

Credit Risk

For further details on CLS's Risk Management Framework, please see CLS's public PFMI disclosure published on <https://www.cls-group.com>

CLS Risk Category Appetite and Tolerances

Operational Risk

Operational Risk

- CLS shall seek to minimize operational issues emanating from CLS which could lead to incomplete settlement or market disruptions. CLS shall establish quantitative limits on the maximum loss and service impact arising from operational errors and incidents.
- CLS shall meet its internal target information security maturity levels and seek to apply its information security standards in a consistent and comprehensive manner in order to protect its information assets (i.e., data and the systems that store and process those data) from material information security incidents. Credible risk mitigants shall be in place against identified maturity gaps.
- CLS shall exercise effective model risk governance that mitigates risks stemming from internal quantitative models and model outputs that have a material impact on key CLS business decision-and-control processes. CLS shall practice disciplined model development, apply stringent change and implementation controls that are consistent with CLS's internal policies and supervisory expectations, and maintain an independent and sound model validation process.

Risk Category Appetite and Tolerances

Operational Risk (Cont'd)

Operational Risk (Cont'd)

- CLS shall define project- and change-management standards for the implementation of system enhancements and/or modifications in order to maintain the CLS system's robust technical architecture and infrastructure.
- CLS shall establish and comply with infrastructure capacity standards that enable successful completion of settlement under market-event or worst-case-historical volumes projected for the Core and CLS Aggregation services and shall establish minimum system-and-functionality availability standards.
- CLS shall have a firm-level business continuity plan that is designed with the objective that critical information technology systems and services can resume operations within a reasonable period of time following disruptive events.
- CLS shall maintain a vendor management framework that supports CLS operational resilience and safeguards proprietary and confidential information at CLS.
- CLS shall have viable succession plans in place to address key person risk.

Risk Category Appetite and Tolerances

Market – FX Risk, Funding Liquidity Risk & Credit Risk

Market – FX Risk

- CLS shall mitigate its market risk exposures by applying discretionary FX currency haircuts to ensure sufficient value remains in every SM account in order to protect the ecosystem against settlement failures in the event of extreme currency fluctuations.

Funding Liquidity Risk

- CLS shall seek to reduce funding liquidity risk for SMs by reducing liquidity requirements through multilateral netting mechanisms.
- CLS shall maintain sufficient committed liquidity facilities to mitigate the systemic liquidity impact of the failure of a single SM.

Credit Risk

- CLS shall seek to reduce credit risk exposures for CLS and for the ecosystem by applying strict membership and eligible-currency criteria, proactively conducting regular credit analysis on SMs and Liquidity Providers, and assigning the appropriate Aggregate Short Position Limit that is commensurate with each SM's risk profile.

Risk Category Appetite and Tolerances

Compliance, Legal and Regulatory Risk

Compliance, Legal and Regulatory Risk

- CLS shall comply with the applicable laws, regulations, and internal policies and procedures and shall mitigate the risk of entering into business transactions that may negatively impact its legal risk exposures.
- CLS shall strive to maintain a well-founded, clear, transparent and enforceable legal basis for each aspect of CLS's activities in all relevant jurisdictions. The rule-of-law risk for the jurisdiction of a CLS Eligible Currency should be acceptable under the CLS Rule of Law Framework (or any successor framework).
- CLS shall proactively engage with its regulatory stakeholders and the broader CLS ecosystem with respect to industry-wide issues and regulatory developments.

Risk Category Appetite and Tolerances

Business and Strategic Risk & Systemic Risk

Business and Strategic Risk

- CLS shall manage changes arising from strategic initiatives with prudent, comprehensive risk assessments to insulate the ecosystem from adverse and unintended risk consequences in consideration of its public and private responsibilities.
- CLS shall maintain internal capital and liquidity levels that meet and exceed regulatory guidelines and shall hold minimum (unencumbered and funded by equity) net liquid financial assets that are sufficient to cover the extreme-but-plausible scenarios outlined in its Recovery and Orderly Wind Down Plan.
- CLS shall establish ex-ante, rules-based loss allocation mechanisms for mutualizing certain types of losses incurred by CLS or its Members.

Systemic Risk

- CLS shall seek to reduce the systemic liquidity, credit and operational risk impact on its ecosystem through methods such as robust risk design, failure management tools, and ongoing communications with SMs in order to promote a clear understanding of risks and obligations in the context of mitigating systemic liquidity risk under stress.

Governance

CLS maintains a clear governance framework around the Risk Appetite Statement to ensure ownership, accountability and escalation paths. As CLS's strategy, risk management framework, operating model, regulatory priorities, member preferences and/or market conditions continue to evolve, CLS will amend the Risk Appetite Statement as appropriate, with the approval of the CLS Board of Directors.

- **CLS Board of Directors:** Accountable for and approves the Risk Appetite Statement on an annual basis (or more frequently if necessary). Reviews the Risk Appetite exception reports and related corrective action plans.
- **CLS Management:** Responsible for operating within stated Risk Appetite parameters. Supported by associated comprehensive risk identification, measurement and mitigation frameworks.