

Dino Kos
Chief Regulatory Officer
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February 20, 2018

Via email

Payments Canada
Email: consultation@payments.ca

Re: Modernization Target State Consultation

Dear Sirs/Mesdames:

CLS Bank International (“CLS”) appreciates the opportunity to comment on the Modernization Target State, published by Payments Canada on December 21, 2017.¹

CLS was established by the private sector, in cooperation with a number of central banks, to mitigate the settlement risk (loss or 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 67 members, some of which provide access to the CLS system for over 24,000 third-party institutions.

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”). Additionally, the central banks whose currencies are settled in the CLS system, including the Bank of Canada, have established the CLS Oversight Committee, organized and administered by the Federal Reserve pursuant to the *Protocol for the Cooperative Oversight Arrangement of CLS*,² 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. The CLS system is a designated system in Canada under the Payment Clearing and Settlement Act (“PCSA”).³ 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.⁴

¹ https://www.payments.ca/sites/default/files/21-Dec-17/modernization_target_state_en_final.pdf.

² https://www.federalreserve.gov/paymentsystems/cls_protocol.htm.

³ Additionally, CLS has been designated as a systemically important financial market utility by the United States Financial Stability Oversight Council and has been designated under finality legislation in various other jurisdictions.

⁴ <http://www.bis.org/cpmi/publ/d101a.pdf>.

CLS maintains an account with the central bank for each eligible currency, and all payments to and from CLS's central bank accounts are made through the applicable real time gross settlement ("RTGS") system. For all eligible currencies except for the Canadian dollar, CLS is a direct participant in, and maintains direct connectivity to, the applicable RTGS system. CLS is not a direct participant in the Large Value Transfer System ("LVTS") operated by Payments Canada. Instead, the Bank of Canada participates in the LVTS on CLS's behalf, with which it exchanges payment and reconciliation messages via the SWIFT FIN network.

CLS welcomes Payment Canada's forthcoming review of its access criteria and participation requirements for Lynx, the high-value payment system which will replace the LVTS. CLS generally supports Payment Canada's intention to broaden its membership base in connection with its modernization program, and encourages Payments Canada to advocate for legislative changes⁵ to support direct access for international payments systems designated as systemically important under the PSCA and subject to collective oversight arrangements that include the Bank of Canada. Enabling direct access for such institutions would promote Payment Canada's objectives of safety, soundness, and efficiency for Canada's high-value payment system and financial stability more broadly.

We appreciate Payment Canada's consideration of the views set forth in this letter and would welcome the opportunity to discuss any of these comments in further detail.

Sincerely,



Dino Kos
Chief Regulatory Officer

cc: John Hagon, Chief Operations Officer
David A. Trapani, Head of U.S. Legal
Kerry F. Denerstein, Regulatory Affairs Specialist

⁵ Under section 13 of *By-law No. 7 Respecting the Large Value Transfer System*, made under the authority of the Canadian Payments Act (the "CP Act"), any Payments Canada member institution is eligible to become a participant in the LVTS if it maintains a settlement account at the Bank of Canada, meets the technical and other requirements set out in the rules, and pays applicable participation fees. The Bank of Canada, all banks organized under the laws of Canada, all Authorized Foreign Banks, and bridge institutions are required to be members of Payments Canada under section 4(1) of the CP Act. In addition, under section 4(2), credit union centrals, trust companies, loan companies, certain other deposit-taking institutions, life insurance companies, securities dealers, and money-market mutual funds that meet certain prescribed requirements are eligible to become a member institution. However, international payment systems designated as systemically important under the PSCA are not entitled to membership under the CP Act and therefore cannot meet the eligibility criteria for direct participation in the LVTS under By-law No. 7.