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Via email

Financial Systems Division
Financial Sector Policy Branch
Department of Finance Canada
90 Elgin Street
Ottawa ON K1A 0G5
Email: fin.payments-paiements.fin@canada.ca

Re: Consultation on the Review of the Canadian Payments Act

Dear Sirs/Mesdames:

CLS Bank International (“CLS”) appreciates the opportunity to comment on the *Consultation on the Review of the Canadian Payments Act* (the “Consultation Paper”), published by the Department of Finance Canada (the “Department”) on May 25, 2018.

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 70 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*,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. The CLS system is a designated

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

system in Canada under the *Payment Clearing and Settlement Act* (the “PCSA”).² 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.³

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’s comments are directed to Section 4.3 of the Consultation Paper (Lynx and Systemically Important FMIs).

Q: “What are your views on whether and how to broaden membership so that systems that are designated by the Bank of Canada as systemically important financial market infrastructures can directly access Lynx?”

CLS welcomes the Department’s review of Payments Canada’s membership structure in connection with the modernization initiative and strongly supports legislative changes to section 4(2) of the *Canadian Payments Act* (the “Act”) to enable direct access to Lynx for international payment systems and other FMIs designated as systemically important under the PCSA and subject to collective oversight arrangements that include the Bank of Canada.

Enabling direct access for such institutions would promote the Government’s three public policy objectives: safety and soundness, efficiency, and user interests.⁴ With regard to safety and soundness, CLS agrees that risk exposure to Lynx and Lynx participants would be limited given the fact that designated FMIs overseen by the Bank of Canada must meet stringent risk management standards (i.e., the PFMI).⁵ Moreover, broadening membership eligibility to FMIs designated under the PCSA would lower operational risks and costs, allowing such FMIs to deliver their services to end-users in a more efficient manner. Lastly, CLS notes that although it is a private sector institution, it was founded in cooperation with several central banks (including the Bank of Canada) with a mission to provide risk mitigation services to its end-users, and in doing so, mitigates systemic risk in the global FX market more broadly.

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² 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.

³ <http://www.bis.org/cpmi/publ/d101a.pdf>.

⁴ See Consultation Paper, Section 2.

⁵ See Consultation Paper, Section 4.3.

We appreciate the Department'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 Lead