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July 2, 2024

Via email

Ann E. Misback, Secretary  
Board of Governors of the Federal Reserve System,  
20th Street and Constitution Avenue,  
NW, Washington,  
DC 20551  
regs.comments@federalreserve.gov

**Re: Expansion of Fedwire Funds Service and National Settlement Service Operating Hours  
(Docket No. OP-1831)**

Dear Ms. Misback:

CLS Bank International (“CLS”) welcomes the opportunity to respond to the request for comment issued by the Board of Governors of the Federal Reserve System (the “Board”), proposing to expand the operating hours of the Fedwire Funds Service (“Fedwire”) and the National Settlement Service (“NSS”).

### **Background**

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 over 70 members, some of which provide access to the CLS system for over 35,000 third-party institutions.

As an Edge Act corporation established under Section 25A of the Federal Reserve Act, CLS is regulated and supervised by the 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*,<sup>1</sup> 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. In addition, 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”). The FRBNY conducts day-to-day supervision of CLS, as delegated by the Board and CLS is subject to the risk management standards set forth in Regulation HH.

### **Specific Comments on the Proposal**

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<sup>1</sup> [https://www.federalreserve.gov/paymentsystems/cls\\_protocol.htm](https://www.federalreserve.gov/paymentsystems/cls_protocol.htm).

**Q1: What are the primary benefits to the banking industry, financial markets, and broader economy from an expansion to 22x7x365 Fedwire Funds Service and NSS operating hours? What are the primary benefits to your institution?**

For CLS's main settlement service, and from today's perspective, we do not see significant benefits from an expansion of Fedwire hours to 22x7x365. The CLS Settlement service completes its settlement between 7am and 12pm CET, which is well within Fedwire's current operating hours. In certain failure scenarios, the CLS settlement window can be extended into the afternoon of European hours; however, in most cases, the current Fedwire operating hours would cover this extension. If there was a significant market event, then extending Fedwire into the early evening could be beneficial, though these events are very rare (less than 1 every few years or even less often). Looking ahead, if extended operating hours led to a change in business behavior and liquidity in the FX market, this could potentially lead to the market asking CLS to implement additional settlement sessions (e.g., a European afternoon session with the European and North American currencies).

From a broader financial markets/resolution lens, CLS has participated in calls with numerous resolution authorities to understand the most likely resolution scenarios in jurisdictions where its members are located and timing. Based on these conversations, we understand the goal of most of these authorities would be to commence the resolution on a Friday evening, so the bulk of the resolution work could be done over the weekend, thereby minimizing market disruptions. From our perspective, this is highly preferable, since CLS would welcome the time over the weekend (when settlement does not occur) to take numerous steps in order to maximize the likelihood that the member in resolution could continue to safely participate in CLS and reduce risks to the broader CLS ecosystem. Although CLS doesn't envision participating in expanded operating hours over the weekend, we wish to highlight this issue for consideration by relevant authorities, so that they can consider any resolution-related ramifications if operating hours of Fedwire and NSS are significantly expanded.

We believe that expanded Fedwire hours could potentially benefit its members in resolution (or other stress scenarios) who seek to maintain access to CLS by affording these members additional flexibility to transfer (or to arrange for a transfer of) USD to their USD nostro agents over a weekend, assuming these funds are otherwise available at that time. This may be beneficial in scenarios where the nostro agent has requested USD collateral or prefunding, including scenarios where additional liquidity is required as a result of reductions in In/Out Swap<sup>2</sup> counterparty limits by other members. Based on CLS's member and nostro engagement over the years, we understand that in a resolution scenario or other stress scenario, nostro agents may request their clients to provide collateral or prefunding. In addition, we anticipate that in a member resolution scenario CLS would seek assurances from the member's nostro agents in all relevant currencies, including USD, that the nostro agents would be prepared to fund. Accordingly, the ability of a member to provide funding to its USD nostro agent at an earlier point in time could be beneficial to CLS and the member if, as a result, nostro agents would be able or willing to confirm to CLS their intent to fund at an earlier point in time.

**Q7: Are you interested in full 24x7x365 operating hours for Fedwire Funds Service and NSS? If so, what is your preferred time frame for such an expansion of operating hours? What considerations factor into your preference?**

For our main Settlement Service, there currently appears to be limited appetite for 24x7x365. Commercially, there are currently no FX settlements performed over the weekend for CLS-eligible currencies and therefore there would be, from today's perspective, no necessity for CLS to process USD payments. Additionally, all of our maintenance activities are performed at the weekend and we would prefer not to be connected to payment systems during this time.

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<sup>2</sup> An In/Out Swap is a swap transaction; the first leg settles inside CLS and the second leg settles outside CLS. The effect of the swap is to reduce the net short position that settles within CLS for the counterparty (with a corresponding reduction in the net long position for its counterparty), and therefore the funding required by each participant in the swap.

**Q11: The Federal Reserve plans to maintain the ability to opt out of expanded hours. How would the optionality with respect to participating in a 22x7x365 operating hours environment of the Fedwire Funds Service and NSS, as described in this notice, benefit or challenge your institution or the broader industry? What steps might the Federal Reserve take to augment potential benefits? What steps might the Federal Reserve take to mitigate potential costs and risks**

CLS very much supports the plan to allow Fedwire participants to opt out of expanded hours. Notwithstanding the proposed expansion, CLS currently does not foresee running settlement services on the weekend.

If there were no opt out option and all Fedwire participants were required to have the capability to process payments during the weekend, then very significant operational and technical changes would be required with, from today's perspective, very limited benefit to CLS. Currently, the weekend period is used to bring down CLS's systems for maintenance work and upgrades. If CLS systems such as its accounting, payment, and sanctions screening systems had to be operational on weekends, then CLS would have to undertake a major re-architecture of these systems so that they are always "up" and designed in such a way that they can be maintained and upgraded without "downtime". Such a change would require a multi-year change program. Operationally, CLS would have to extend its staffing requirements from 24x5.5 to 24x7.

Assuming CLS will be able to opt out, the following questions would still need to be assessed by CLS:

- (i) Would we need additional operational staffing to cover weekends in order to deal with any ad hoc queries relating to RTGS operations?
- (ii) Do we need to request that payments are blocked from institutions that are opted out?

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We appreciate the Board's consideration of the views set forth in this letter and are available to discuss any of the comments in further detail, as needed.

Sincerely,



**Dirk Bullmann**  
**Managing Director, Office of the CEO**

CC: Lauren Alter-Baumann, Executive Director, Legal and Regulatory Projects and Resolution

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