
SUPERVISION OF FINANCIAL MARKET INFRASTRUCTURES IN SINGAPORE

Monetary Authority of Singapore

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(revised in September 2020)



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1 Introduction

1.1 Financial market infrastructures (“FMI”) that facilitate the clearing, settling, or recording of payments, securities, derivatives or other financial transactions are key components of the financial system, and play a critical role in fostering financial stability. FMIs that are not properly managed can pose significant risks to the financial system and be a potential source of contagion. This Monograph describes the approach of the Monetary Authority of Singapore (“MAS”) in its supervision¹ of FMIs in Singapore.

International Standards

1.2 MAS adopts the Principles for Financial Market Infrastructures (“PFMI”) when carrying out its supervision of FMIs. The PFMI was issued by the Committee on Payments and Market Infrastructures (“CPMI”) and the International Organization of Securities Commissions (“IOSCO”) in April 2012, following a comprehensive review of three pre-existing sets of standards for FMIs – the Core Principles for Systemically Important Payment Systems (“CPSIPS”), the Recommendations for Securities Settlement Systems (“RSSS”), and the Recommendations for Central Counterparties (“RCCP”). The PFMI, which sets the benchmark for the supervision of FMIs, are expressed as broad principles, in recognition of the differences amongst FMIs, and provide guidance to FMIs and authorities on the identification, monitoring, mitigation and management of the full range of risks that arise in or are transmitted by FMIs.

1.3 The PFMI defines an FMI as a multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling, or recording payments, securities, derivatives or other financial transactions. There are five key types of FMIs:

- (a) *Payment system*: A payment system is a set of instruments, procedures, and rules for the transfer of funds between or among participants; the system includes the participants and the entity operating the arrangement. Payment systems are commonly categorised into large-value payment systems (“LVPS”) and retail payment systems. An LVPS is a funds transfer system that settles

¹ Regulation refers to the establishment of specific rules of behaviour to which FMIs are required to adhere while supervision refers to the monitoring of the behaviour of FMIs, including compliance with rules and regulations. When the term “supervision” is used in isolation, we intend it to mean the broad oversight of the FMIs, including both regulation and supervision.

large-value transactions between financial institutions. Retail payment systems are mostly large-volume low-value payments by and between individuals and corporations through instruments such as cheques, credit transfers, debit transfers, or payment cards.

- (b) *Central Securities Depository (“CSD”)*: A CSD provides securities accounts, central safekeeping services, and asset services, which may include the administration of corporate actions and redemptions. A CSD can hold securities either in physical form (but immobilised) or in dematerialised form (that is, they exist only as electronic records).
- (c) *Securities Settlement System (“SSS”)*: A SSS enables securities to be transferred and settled by book entry according to a set of predetermined multilateral rules.
- (d) *Central Counterparty (“CCP”)*: A CCP interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the performance of open contracts.
- (e) *Trade Repository (“TR”)*: A TR is an entity that maintains a centralised electronic record/database of transaction data.

1.4 Prior to the issuance of the PFMI, MAS had applied CPSIPS, RSSS and RCCP in its supervision of relevant FMIs. In line with international developments, MAS adopts the standards set out in the PFMI. All systemically important payment systems (“SIPS”), CSDs, SSSs, CCPs, and TRs in Singapore are expected to comply with the PFMI. In addition, MAS may impose higher or more specific requirements on FMIs, as appropriate, in the context of specific risks, or in the context of wider financial sector stability.

2 Supervisory Objectives

2.1 The Monograph on Objectives and Principles of Financial Sector Oversight issued in 2004 sets out six distinct objectives of MAS' functions:

- a stable financial system;
- safe and sound financial intermediaries;
- safe and efficient FMIs;
- fair, efficient and transparent organised markets;
- transparent and fair-dealing intermediaries and offerors; and
- well-informed and empowered consumers.

2.2 The objectives of ensuring safe and efficient FMIs, and fair, efficient and transparent organised markets, directly pertain to the supervision of FMIs. In particular, FMIs provide the services and facilities underpinning financial market activities, and are important nodes in the financial system. They thus play a critical role in the safety and efficiency of the financial system. MAS monitors and assesses relevant FMIs to ensure that they have proper structures, processes and rules in place to achieve the following objectives:

- (a) *Safety*: FMIs play a key role in fostering financial stability. The failure of FMIs may contribute to and exacerbate systemic crises, and threaten the stability of domestic and international financial markets, and the broader economy. A safe FMI identifies, assesses, and manages risks that arise within the FMI or through interdependencies with other participants. These risks include, but are not limited to, legal, credit, liquidity, general business, custody, investment and operational risks. MAS seeks to ensure that FMIs are designed and operated in a safe manner, so that they do not compromise financial stability.
- (b) *Efficiency*: MAS also seeks to ensure that FMIs operate in an efficient manner. Inefficient FMIs may distort financial activity and the market structure, affecting not only its participants, but participants' customers as well. These distortions may in turn lead to increased risks within the broader financial system. An efficient FMI makes effective use of resources in performing its duties, thereby keeping costs reasonable while maximising economic benefits.

3 Regulatory Framework

3.1 MAS' powers for the supervision of FMIs are derived from the Payment Services Act 2019 ("PS Act") and the Securities and Futures Act ("SFA"). The PS Act and SFA set out the regulatory framework for FMIs, in line with the PFMI. MAS has primary responsibility for the supervision of SIPS, CSDs, SSSs, CCPs and TRs in Singapore. A list of FMIs which MAS supervises is in Annex A.

Payment Systems

3.2 The PS Act empowers MAS to collect information from all payment systems in Singapore. Specifically, MAS has powers to require the provision of payment system-related information by the operators, settlement institutions and participants of any payment system in Singapore. The purpose of this requirement is to allow MAS access to comprehensive and reliable information. This enables MAS to monitor the development of the payment system ecosystem in Singapore, maintain surveillance for better supervision of payment systems and make informed policy decisions.

3.3 The PS Act also empowers MAS to designate² a payment system if it is considered a SIPS or a system-wide important payment system ("SWIPS"), or where it is otherwise in the public interest to do so.

- (a) SIPS are systems whose disruption could trigger, cause or transmit further disruption to participants of the payment systems or cause systemic disruption to the financial system of Singapore. The MAS Electronic Payment System ("MEPS+") is a SIPS in Singapore. All SIPS are subject to the PFMI.
- (b) SWIPS are systems whose disruption could trigger, cause or transmit further disruption to participants of the payment systems or affect public confidence in the payment systems or the financial system of Singapore. Although a disruption or failure in these systems may have system-wide implications and may affect many users, there is negligible risk of systemic impact to financial stability. The Fast And Secure Transfers ("FAST"), Singapore Dollar Cheque Clearing System ("SGDCCS"), US Dollar Cheque Clearing System ("USDCCS"),

² The designation of a payment system involves the issuance of a Designation Order identifying the name, operator and settlement institution of the system.

Inter-bank GIRO System (“IBG”) and NETS Electronic Fund Transfers at Point of Sale (“NETS EFTPOS”) are considered SWIPS and have been designated under the PS Act. Currently, MAS does not subject SWIPS to the PFMI.

3.4 The criteria used to determine when to designate a payment system include number and value of transactions processed, number and type of participants, markets served, market share, interconnectedness with other payment systems and other financial institutions, and available alternatives to using the payment system at short notice.

3.5 MAS’ regulatory powers over designated payment systems (“DPS”) include the ability to regulate access rules for participation, impose restrictions and conditions, establish standards, make regulations, approve and remove chief executive officers and directors, approve substantial shareholders and other controllers, issue directions and inspect DPSs’ operations.

3.6 Unlike other DPSs, MEPS+ is owned and operated by MAS³. As the PS Act is intended for commercial DPSs, MAS is exempted from the PS Act as an operator, settlement institution and participant of MEPS+. To supervise MEPS+ effectively, internal oversight arrangements and controls have been established within MAS to ensure adherence to the PFMI. These are elaborated under Section 4 of this Monograph.

3.7 The PS Act also introduced a new designation consideration that empowers MAS to designate a payment system for competition and efficiency purposes. This is to mitigate the risk of anti-competitive behaviour arising from the dominance of or reliance on a payment system that is widely used, or where the operations of such a system have an impact on the operations of other payment systems in Singapore. Currently, no payment system has been designated for this purpose.

Capital Markets FMIs

3.8 As the statutory capital markets regulator, MAS is responsible for the supervision of capital markets FMIs (“CMFMI”) which comprise CSDs, SSSs, CCPs and TRs in Singapore. CMFMIs in Singapore have the potential to trigger or transmit

³ Pursuant to s29A of the Monetary Authority of Singapore Act.

systemic disruptions due to their critical functions in the Singapore capital markets and are therefore deemed to be systemically important.

3.9 MAS' supervision of CMFMIs is guided by the SFA and its accompanying regulations. Any CMFMI that seeks to offer its services in Singapore must be authorised by MAS before it can commence operations.

3.10 Pursuant to Part III of the SFA, clearing facilities are defined to include SSSs and CCPs. Corporations operating clearing facilities are regulated as approved clearing houses ("ACH") or recognised clearing houses ("RCH"). TRs are regulated as either licensed trade repositories ("LTR") or licensed foreign trade repositories ("LFTR") under Part IIA of the SFA. There is currently only 1 CSD regulated under Part IIIAA of the SFA.

3.11 Generally, ACHs and LTRs are locally-incorporated FMIs subject to a higher degree of supervision in Singapore on account of their greater systemic importance. They are required to comply with a set of ongoing obligations in line with the PFMI, including obligations to operate safe and efficient facilities, manage business and operational risks prudently, and maintain sufficient financial, human and system resources. In addition, specific risk management frameworks are subject to MAS' direct supervision and review, for example, changes to business rules or, for ACHs, changes to financial resources that are available to support a member's default. In general, MAS' regulatory powers over ACH and LTRs include powers to impose restrictions (including access restrictions), conditions and directions, approve and remove chief executive officers and directors, approve substantial shareholders and other controllers, and conduct inspections of the operations.

3.12 RCHs include locally-incorporated entities that provide clearing facilities other than SSS or CCP functions, as well as overseas-incorporated clearing facilities which offer FMI functions in Singapore. LFTRs are overseas-incorporated FMIs which offer trade repository functions in Singapore. An overseas-incorporated FMI is regulated as RCH or LFTR, in recognition that MAS has been satisfied of the following:

- (a) The regulatory regime in the home jurisdiction of the FMI is comparable, in the degree to which MAS' objectives of regulation are achieved, to the requirements and supervision to which a locally-incorporated FMI in Singapore is subject under the SFA. The home jurisdiction should be one which applies the PFMI in its supervision of the overseas-incorporated FMI; and

- (b) Adequate arrangements have been made for cooperation with the home regulator of the FMI, generally through a memorandum of understanding, or similar formal documentation, on information exchange and mutual assistance between MAS and the home regulator of the FMI.

3.13 RCHs and LFTRs are subject to a baseline level of general obligations in line with the PFMI. These include obligations to operate safe and efficient facilities, manage business and operational risks prudently, and maintain sufficient financial, human and system resources. However, in view that they are subject to supervision by their home regulators, MAS exercises a less intrusive approach towards supervision of such entities.

3.14 The SFA empowers MAS to collect information from ACHs, RCHs as well as LTRs and LFTRs. This allows MAS to monitor the activities of the FMIs, in order to assess the impact of their activities to the capital markets in Singapore.

3.15 Both the PS Act and the SFA are regularly reviewed and updated to ensure their continued effectiveness in supporting MAS' supervisory objectives with respect to FMIs.

4 Supervisory Approach

SIPS

4.1 MEPS+ is the only SIPS in Singapore and is owned and operated by MAS. Notwithstanding that MAS is exempted from the PS Act, MAS holds itself to similar standards as those expected of an operator and settlement institution of a DPS under the PS Act. The standards against which MEPS+ is supervised are set out in the Standards for MAS-Operated Financial Market Infrastructures⁴. To maintain effective oversight of MEPS+, MAS has established a formalised internal oversight arrangement where the supervisory and operational (“MEPS+ Operator”)⁵ functions are separate, with distinct and segregated reporting lines to different management fora. The supervision of MEPS+ is aimed at ensuring its safety and efficiency through adherence to the PFMI and other applicable requirements and guidelines⁶.

4.2 The Payments Department (“PD”) in MAS is responsible for the supervision of MEPS+, supported by the Technology and Cyber Risk Supervision Department (“TCRD”) for technology risk related matters. PD imposes the following requirements on the MEPS+ Operator as part of its supervision of MEPS+:

- (a) *Information gathering and analysis:* PD requires the MEPS+ Operator to submit a variety of reports and data to facilitate on-going monitoring and analysis of MEPS+ operations, developments and risks. On a quarterly basis, the MEPS+ Operator is required to submit a report to PD on key MEPS+ payment statistics and events, such as industry testing and decisions made by management committees. The quarterly report allows PD to assess potential areas where risks may materialise and follow up with the MEPS+ Operator as appropriate.

⁴ <https://www.mas.gov.sg/publications/monographs-or-information-paper/2015/standards-for-mas-operated-financial-market-infrastructures>

⁵ The operations functions of MEPS+ is performed by the Information Technology Department and supported by the Finance Department. The risk management function of MEPS+ is performed by the Risk Management Department (“RiMD”). More information on the MEPS+ risk management framework can be found in the Disclosure Framework on MAS website at <https://www.mas.gov.sg/regulation/payments/meps>.

⁶ Examples of applicable requirements and guidelines include the CPMI-IOSCO Guidance on Cyber Resilience for Financial Market Infrastructures, CPMI report on Reducing the Risk of Wholesale Payments Fraud related to Endpoint Security, MAS Notice on Technology Risk Management, Technology Risk Management Guidelines, Business Continuity Management Guidelines and Outsourcing Guidelines.

On an ad-hoc basis, PD also requires the MEPS+ Operator to report material MEPS+ incidents promptly and to notify PD prior to material changes to its operations. These ad-hoc submissions provide PD with more timely information on significant developments and risks to MEPS+.

- (b) *Inspection reviews:* PD also performs ongoing assessment of MEPS+, using information gathered from off-site reviews, to determine if any supervisory action is needed to improve the safety or efficiency of MEPS+. In addition to off-site thematic reviews and analysis, PD carries out periodic on-site inspections of MEPS+ operations. Such inspections facilitate a more in-depth review of whether risks are appropriately managed, and whether the PFMI and other applicable requirements and guidelines are adhered to.
- (c) *Assessments against PFMI and International Guidance:* PD requires the MEPS+ Operator to conduct self-assessments of MEPS+ adherence to the PFMI, and to publish information required under the PFMI Disclosure Framework (“DF”), biennially. The self-assessment and DF will be reviewed by PD as part of PD’s assessment of MEPS+. PD also requires the MEPS+ Operator to adopt recommendations under international guidance such as the CPMI report on Reducing the Risk of Wholesale Payments Fraud Related to Endpoint Security and CPMI-IOSCO Guidance on Cyber Resilience for Financial Market Infrastructures.
- (d) *Assessments against relevant MAS regulatory requirements:* In addition to the PFMI and international guidance, PD also requires the MEPS+ Operator to meet relevant requirements that MAS imposes on regulated FIs⁷.
- (e) *Stakeholder engagement:* PD regularly engages the MEPS+ Operator to highlight for their timely action, any issues of supervisory concern. Where significant or deemed necessary, issues will be escalated to the relevant management fora to ensure appropriate oversight and timely remediation. Internal audit is also kept apprised of such issues to facilitate their independent audit. Escalation to the MAS Board or relevant Board Committees, such as Risk Committee, may also take place periodically and where appropriate.

⁷ Examples of such requirements include MAS Notice on Technology Risk Management, MAS Technology Risk Management Guidelines, MAS Business Continuity Guidelines and MAS Outsourcing Guidelines.

SWIPS

4.3 MAS' supervisory framework for SWIPS similarly includes activities such as regular monitoring, meetings with senior management, inspections and desktop reviews. Regular monitoring entails gathering information relating to the design and operation of DPS from the operator and settlement institution. Apart from the ongoing communications at the staff level, MAS conducts regular meetings with senior management of the operator and settlement institution to discuss and understand the strategic plans of the DPS. Inspections and targeted examinations are carried out on a periodic basis. These supervisory activities focus on topics identified through monitoring as well as from previous inspections that either present higher risk or where control processes warrant validation. To facilitate the supervision of SWIPS, a risk assessment framework has been developed to assess the level of risks, and adequacy of controls of these payment systems.⁸ In addition, MAS collects information and data from these payment systems to analyse payment trends and to improve its understanding of the way these systems operate.

4.4 In addition, MAS engages the industry to monitor current issues and developments. Such surveillance and engagement with the industry could form the basis for MAS' payment systems policy formulation and regulations, which MAS reviews from time to time.

CMFMIs

4.5 MAS supervises CMFMIs on an ongoing basis to ensure that they comply with their statutory obligations under the SFA. Similar to our supervision of DPS, MAS' supervisory framework for CMFMIs includes activities such as regular monitoring, meetings with senior management, self-assessments and inspection.

4.6 Regular monitoring entails the review of CMFMIs in various key areas such as financial and regulatory capital compliance, incidences of systems disruptions, and changes to business rules of CMFMIs, which govern the relationships between the

⁸ Please refer to the Monograph on MAS' Framework for Impact and Risk Assessment of Financial Institutions, available on the MAS website. This Monograph covers how MAS' supervisory objectives and principles shape our supervisory framework, and the supervisory processes that underpin the framework including how MAS assesses the impact of financial institutions and the use of the Common Risk Assessment Framework and Techniques ("CRAFT") to assess their risks.

CMFMIs and their respective participants. MAS also engages the CMFMIs in regular dialogue at both staff and senior management levels. Self-assessments involve CMFMIs conducting and submitting a self-assessment report to describe how they have discharged their statutory responsibilities. As with DPS, a risk assessment framework has been developed to assess the level of risks, and adequacy of controls of these CMFMIs. Based on the risk assessment framework, on-site inspections are carried out on a periodic basis, focusing on areas identified through monitoring as well as from previous inspections.

5 FMI Subject to Cooperative Oversight

5.1 Where relevant and practical, MAS seeks to participate in the cooperative oversight of cross-border or multi-currency FMIs which may affect the stability of the financial system of Singapore. Cooperation may take a variety of forms, including formal arrangements that are organised under memoranda of understanding, protocols, informal ad hoc arrangements and regular communications. MAS recognises that cooperative oversight between authorities helps to foster consistent and transparent communications between authorities and the cross-border or multi-currency FMI, enhance transparency among the participating authorities and avoid subjecting the FMI to conflicting regulation. This approach is reflected in the design and administration of the PS Act and SFA. Please refer to Annex B for details of FMIs that are subject to cooperative oversight by MAS.

Financial Market Infrastructures Supervised by MAS

1 Systemically Important Payment System

1.1 MEPS+⁹ is a real time gross settlement system for large-value Singapore dollar interbank funds transfers. It is the payment system used for settlement of financial market transactions, such as foreign exchange and securities transactions. It is also used to effect interbank payments arising from other financial market infrastructures (e.g. FAST, SGDCCS and IBG clearing, and Central Securities Depository). MEPS+ also processes the settlement and holding of scripless Singapore Government Securities¹⁰ (“SGS”) and MAS Bills¹¹. MEPS+ is designated under the Payment and Settlement Systems (Finality and Netting) Act (“FNA”) which provides the legal certainty that all transactions settled by MEPS+ are final and irrevocable.

2 System-Wide Important Payment Systems

Automated Clearing House Systems (“ACH Systems”)

2.1 The FAST, SGDCCS, USDCCS and IBG, collectively called the ACH systems, are operated by the Banking Computer Services Pte Ltd (“BCS”) under the Banking (Clearing House) Regulations. The ACH systems process mainly interbank retail payments. These retail transactions are lower in value compared to MEPS+ payments, but form a large volume of important business and retail transactions such as salary and bill payments. ACH clears transactions on a multilateral deferred net settlement basis. Actual Singapore Dollar funds settlement for FAST, IBG and SGDCCS take place in MEPS+ while for USDCCS, US Dollar settlement occurs in the Cheque Settlement System operated by Citibank N.A., the appointed settlement bank for USDCCS. SGDCCS, USDCCS and IBG are designated under the FNA to provide for the

⁹ As explained in paragraph 3.6 of this Monograph, MAS is exempted from the PS Act as an operator, settlement institution and participant of MEPS+.

¹⁰ SGS are issued by MAS, in its capacity as the Singapore Government’s fiscal agent. SGS issuance is governed by the Government Securities Act and Local Treasury Bills Act.

¹¹ MAS Bills are issued by MAS pursuant to the MAS Act.

enforceability of netting arrangements under certain scenarios and to give certainty to the default arrangements of these systems in the event of the insolvency of a participant. MAS intends to designate FAST under the FNA by 2021.

NETS Electronic Fund Transfers at Point of Sale (“NETS EFTPOS”)

2.2 Debit cards are important means of payment at points-of-sale (“POS”) for Singapore residents. NETS EFTPOS, a domestic debit card system, is operated by Network for Electronic Transfers (Singapore) Pte Ltd and widely accepted by most merchants in Singapore. Interbank settlement of NETS EFTPOS transactions occurs on a deferred net basis. MAS intends to designate NETS EFTPOS under the FNA by 2021.

3 Capital Markets FMIs

The Central Depository (Pte) Limited (“CDP”)

3.1 CDP is a CSD, SSS and CCP in respect of trades executed on the market operated by the Singapore Exchange Securities Trading Limited. This includes trades on shares, warrants and other securities¹². CDP is also a CSD and SSS in respect of the settlement of transactions in over-the-counter (“OTC”) bonds.

Singapore Exchange Derivatives Clearing Limited (“SGX-DC”)

3.2 SGX-DC is a CCP which provides clearing and settlement for futures and options contracts on interest rates, stock indices, dividend indices and commodities traded on the Singapore Exchange Derivatives Trading Ltd. SGX-DC also offers clearing of OTC commodity derivatives, such as oil, coal swaps and freight forward agreements.

ICE Clear Singapore Pte Ltd (“ICSG”)

3.3 ICSG is a CCP which provides clearing and settlement for commodity and financial derivatives traded on ICE Futures Singapore Pte Ltd (“IFSG”). Intercontinental

¹² These include real estate investment trusts (“REITs”), exchange-traded funds (“ETFs”), exchange-traded notes (“ETNs”), business trusts, American depository receipts (“ADRs”), global depository receipts (“GDRs”) as well as bonds.

Exchange, Inc. acquired Singapore Mercantile Exchange Pte Ltd and Singapore Mercantile Exchange Clearing Corporation Pte Ltd in February 2014, and renamed these entities as IFSG and ICSG, respectively.

Asia Pacific Clear Pte Ltd (“APEX Clear”)

3.4 APEX Clear is a CCP which provides clearing and settlement for commodity and financial derivatives traded on the Asia Pacific Exchange Pte Ltd.

DTCC Data Repository (Singapore) Pte. Ltd. (“DDRS”)

3.5 DDRS, a subsidiary of Depository Trust and Clearing Company in the US, operates a TR in Singapore. DDRS enables market participants’ reporting of OTC derivative transactions (e.g. credit default swaps, interest rate swaps). Information reported to DDRS provides regulators with enhanced transparency in the OTC market.

Financial Market Infrastructures Subject to Cooperative Oversight

1 Continuous Linked Settlement

1.1 The Continuous Linked Settlement (“CLS”) is a global payment system that MAS oversees via a cooperative oversight arrangement. CLS is a cross-border payment system that settles foreign exchange transactions for the major currencies on a payment-vs-payment (“PVP”) basis. The settlement service is provided by CLS Bank in New York. It provides PVP settlement service across 18 currencies (including the Singapore Dollar), and non-PvP settlement of certain credit derivative and non-deliverable foreign exchange forward trades.

1.2 MAS participates in the cooperative oversight of CLS. CLS Bank is regulated and supervised by the Federal Reserve in the U.S. as an Edge corporation. The U.S. Federal Reserve also chairs the CLS Oversight Committee (“CLS OC”), in which MAS participates along with other central banks. The CLS OC provides a mechanism for central banks whose currencies are settled in CLS Bank to carry out their individual oversight responsibilities. The U.S. Federal Reserve organises and administers the CLS OC, which operates in accordance with the Protocol for Cooperative Oversight of CLS (“Protocol”). The Protocol was adopted by the CLS OC to minimise duplication of effort by the central banks, foster consistent, transparent communications between the central banks and CLS Bank, and enhance transparency among the participating central banks regarding the development and implication of international and domestic policies applicable to CLS Bank. As a SIPS, CLS is required to comply with the PFMI by the CLS OC.