

**Meeting Between Governor Waller and Staff the Federal Reserve Board and  
Representatives of the Futures Industry Association and Certain Member Organizations  
May 9, 2024**

**Participants:** Governor Christopher J. Waller and Andrew Hartlage (Federal Reserve Board)

Walt Lukken, Jackie Mesa, and Kyle Glenn (Futures Industry Association);  
Tom Gillis (Wells Fargo & Company); Deborah Toennies (JPMorgan Chase  
& Co.); Alicia Crighton (The Goldman Sachs Group, Inc.); Bengt Redlinger  
(Bank of America Corporation); Daniel Wiebicke (Morgan Stanley)

**Summary:** Governor Waller and staff of the Federal Reserve Board met with representatives of the Futures Industry Association and certain of its member organizations to discuss the Board's GSIB surcharge proposal and the agencies' Basel III endgame notice of proposed rulemaking (Basel III endgame proposal). Representatives of these organizations shared views related to the GSIB surcharge proposal, focusing on the inclusion of cleared derivatives activity in certain metrics, and shared views on the Basel III endgame proposal, focusing on how the proposed frameworks for operational risk, market risk, and credit valuation adjustment risk may impact clearing activity.



# **The US GSIB Surcharge and Basel III Endgame and Proposals Threaten Access to Cleared Derivatives Markets**

May 2024

# Topline Numbers

## Capital Requirement Attributable to Six US GSIBs' Client Clearing Activity as of June 30, 2023\*

	Capital Requirement Expressed in Dollars (billions)	Percentage Increase in Capital Requirement
Current U.S. Standardized Approach	\$8.96	N/A
Net Increase from Endgame Proposal	\$2.01	22.4%
Net Increase from Surcharge Proposal	\$5.20**	58.1%
<b>Total Net Increase from Proposals</b>	<b>\$7.21</b>	<b>80.5%</b>

\*The data collection and analysis for this quantitative impact study (QIS) was conducted by the GARP Benchmarking Initiative (GBI)®, a division of the Global Association of Risk Professionals® (GARP). GARP®, a nonpartisan, non-profit corporation, is the world's leading professional association for risk managers, dedicated to the advancement of the profession through education, research, and the promotion of best practices. GARP does not lobby, take advocacy positions, or engage in any advocacy related to the data it collects and analyzes.

\*\*We calculated this capital impact of \$5.20 billion by reflecting the changes to the six participating firms' Method 2 G-SIB Surcharge scores arising from the Surcharge Proposal's changes to the treatment of client clearing activities. Specifically, the net increase takes account of the increases to these firms' Method 2 scores arising from the proposed inclusion of client OTC clearing under the agency model to the Complexity and Interconnectedness indicators as well as a modest decrease to Method 2 scores attributable to client clearing activities arising from the incorporation of SA-CCR into the Interconnectedness indicator. For purposes of calculating the impact of changes to the Interconnectedness score, participating firms assumed that the alpha factor in the version of SA-CCR used in Interconnectedness indicator would be 1.0, which is consistent with industry recommendations but provides more conservative (lower) projected impact than if the Board decided to apply an alpha factor of 1.4, as proposed. We translated this Method 2 score increase into a G-SIB Surcharge capital requirement increase by dividing the score increase by 20 and multiplying by 10 basis points (which is the size of the increase in capital requirement for each 20 point increase in Method 2 score). We then multiplied this projected increase in capital requirement by the total risk-weighted assets for the participating firms, calculated under the Endgame Proposal's expanded risk-based approach, to arrive at the aggregate capital impact for the six firms.

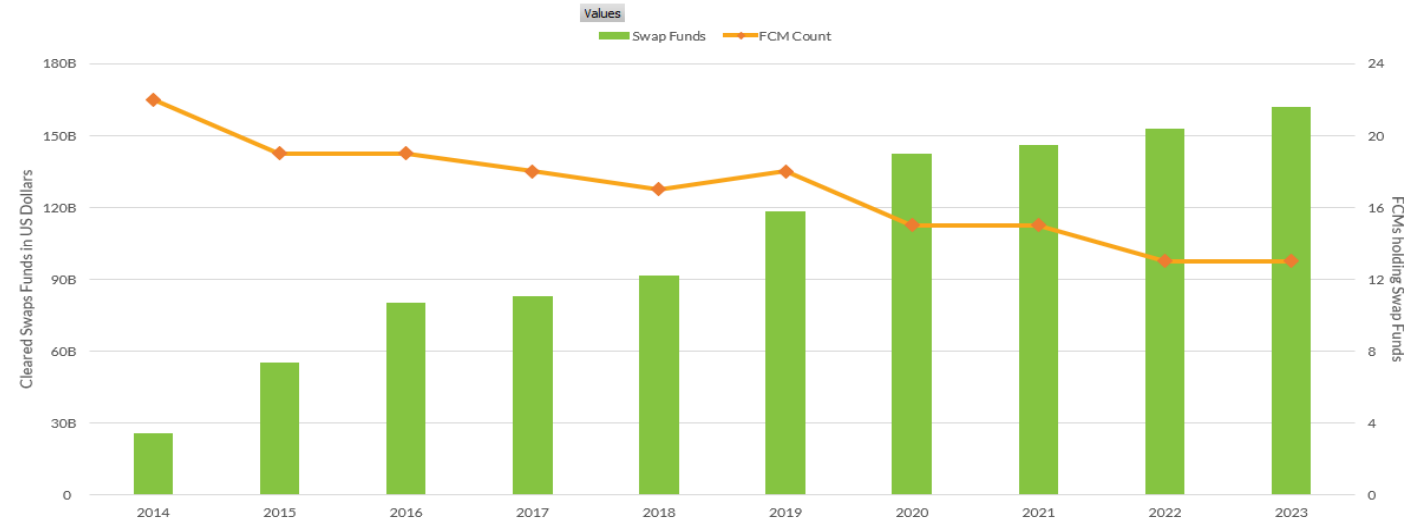


# Centrally Cleared Derivatives Market Challenges

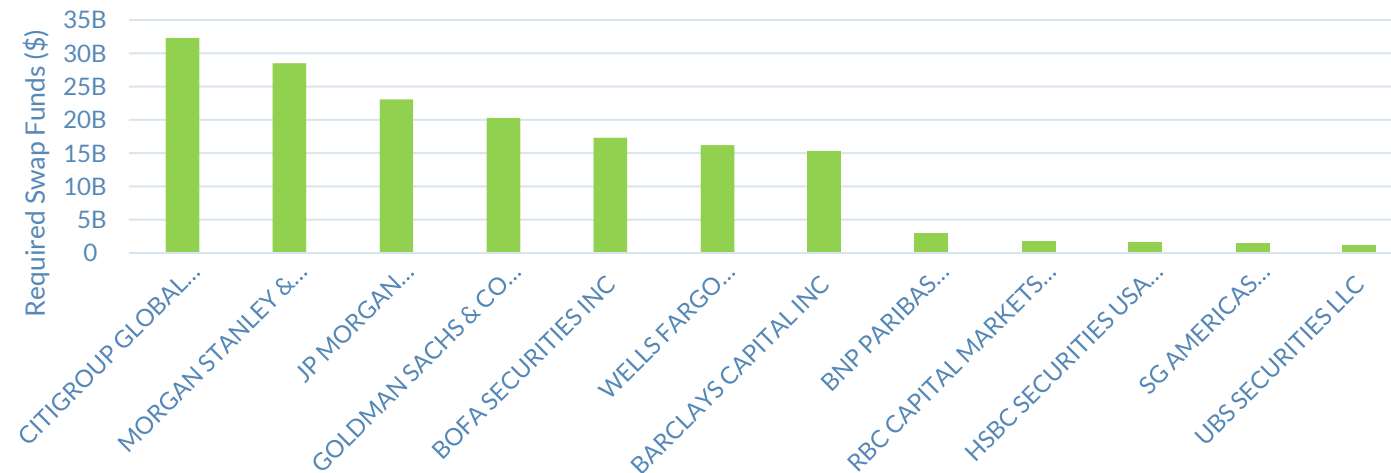
- In the US, firms that clear derivatives for clients must be registered with the Commodity Futures Trading Commission as "Futures Commission Merchants" (FCMs).
- There are a limited number of banks that provide clearing services for over-the-counter (OTC) derivatives.
- At the same time, following the 2008 Financial Crisis, US and Global regulators recognized the risk reducing role of clearing and mandated certain OTC contracts for central clearing.
  - Clearing reduces systemic risk
- Following the introduction of Dodd-Frank Act reforms, there were twenty-two FCMs providing OTC client clearing in 2014. [CFTC mandatory clearing started in March 2013]
- As of year end 2023, there were twelve FCMs offering OTC client clearing services in the US:
  - The top seven banks comprise 94% of the market
  - The top six banks are US BHCs and comprise 85% of the market

# Swap Clearing: Rising Demand, Falling Supply, Dominated by US BHCs

Year-End Swap Funds and FCM Count  
2014 to 2023



Customer Funds in Swap Accounts at FCMs as of Dec 2023



Source: FIA FCM Tracker



# Impact of the GSIB Surcharge Proposal

- The Federal Reserve Board estimated in the NPR that the combined effect of all changes would increase method 2 GSIB firm wide total scores by approximately 27 points on average across firms (13-basis-point increase in the average method 2 GSIB capital surcharge).
  - the preamble states the largest contributors to the projected increase would come from including derivatives exposures in the Cross-Jurisdictional Activity indicators (11 points) and averaging data points underlying the indicators (9 points)
  - the FRB has not provided an estimate of the specific impact the proposal would have on client clearing
- Five of the six QIS GSIB participants reported meaningful increases to their Method 2 GSIB Surcharge scores driven by the inclusion of client cleared OTC derivatives cleared under the agency model in the Complexity and Interconnectedness indicators. Of these five participants, the inclusion of such transactions would increase their Method 2 GSIB Surcharge scores by an average of:
  - **13.9 points in the Complexity indicator**, and
  - 0.9 points in the Interconnectedness indicator
- This would result in a capital equivalent increase of **\$5.20bn industry wide increase across all US GSIB FCMs**, or in percentage terms **58%** relative to current capital requirements under US Standardized.




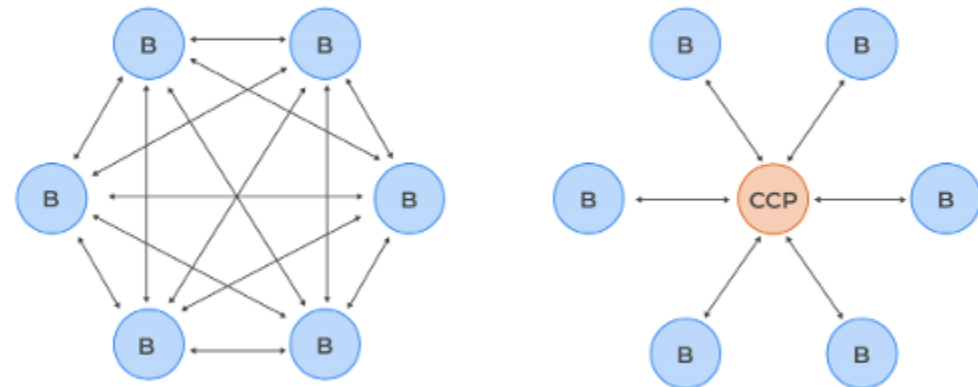
# Impact of the GSIB Surcharge Proposal cont.

- The GSIB Surcharge has a firm-wide impact, that can have a multiplier effect on an entire bank's capital requirements.
- The proposal would increase the likelihood that an OTC client clearing business is responsible for tipping the whole firm into a higher GSIB Surcharge bucket and thus increasing its firmwide capital requirement.
  - Porting Concerns - The Proposal casts serious doubt about the viability of client porting. A Bank taking on a substantial book of new clients would significantly increase capital requirements - *potentially at a firmwide level.*
- The increased capital requirements being proposed will **substantially** disincentive US GSIBs from offering OTC client clearing services, resulting in further concentration of OTC clearing service providers and possible access issues for some market participants.

# Client Clearing Reduces the Complexity in the Resolution of a GSIB

- Client clearing of OTC derivatives reduces the complexity in the resolution of a GSIB, compared to GSIBs engaged in bilateral OTC derivatives trading.
- Client clearing decreases the complexity because:
  - it is not a principal exposure and not on balance sheet under US GAAP;
  - in accordance with CCP default management rules and applicable legislative and contractual frameworks, clients are ported to a solvent clearing member, or closed out if they cannot be ported;
  - it reduces bespoke bilateral arrangements with a more standardized, liquid, margined and transparent system of transactions with a CCP;
  - before entering insolvency proceedings, the GSIB clearing member would typically go through an orderly wind-down without the CCP exercising any close-outs.
- By this standard, there is no basis for treating client OTC clearing activity, irrespective of the client clearing model, the same as bilateral OTC transaction activity in the Complexity indicators, as proposed.

 Illustration of the Role played by Central Counterparties





# The GSIB Surcharge Creates an Unlevel Playing Field

- **Competitive Imbalance**

- International regulators, including in the UK and EU, continue to view client clearing under the agency model where the bank guarantee of performance of the client does not add to the Complexity indicator. In this regard it is unclear why the US rule seeks to diverge from this international consensus.
- The Basel Committee on Banking Supervision’s latest reporting instructions for the international GSIB Surcharge assessment exclude from the Complexity indicator cleared OTC derivative transactions in which a clearing member GSIB, acting as agent, guarantees client's performance to the CCP.
- The Surcharge Proposal would disadvantage US GSIBs versus competitors based abroad who use the agency clearing model.
  - Such a competitive imbalance could distort the OTC derivatives clearing markets and shift OTC client clearing activity to non-US GSIBs.
  - This concern is particularly acute because the US GSIB Surcharge rule is *already* diverging through the use of Method 2, which generally produces higher capital requirements than the standards that apply to GSIBs based outside the US.

	<a href="#">BCBS Instructions for the end-2023 GSIB assessment exercise</a>	<a href="#">Current US GSIB Surcharge Framework (FR Y-15 Instructions)</a>	Proposed amended US GSIB Surcharge Framework
	<i>Complexity</i>	<i>Complexity</i>	<i>Complexity</i>
Clearing member guarantee of CCP performance to the client	Included	Included	Included
Clearing member guarantee of client performance to the CCP	Not included	Not included	Included



# Context of GSIB Surcharge Proposal from 2017

- The Surcharge Proposal is inconsistent with the Board’s prior reasoning for excluding client clearing from the Complexity and Interconnectedness indicators.
- In 2017, the Board proposed to make the same changes that the Board proposes today – i.e., to include within the Complexity and Interconnectedness indicators OTC derivative transactions where a US GSIB, acting as agent, guarantees its client’s performance to the CCP.
- The Board ultimately decided the following year not to finalize such changes. It explained its reasoning for not adding transactions under the agency model as follows:

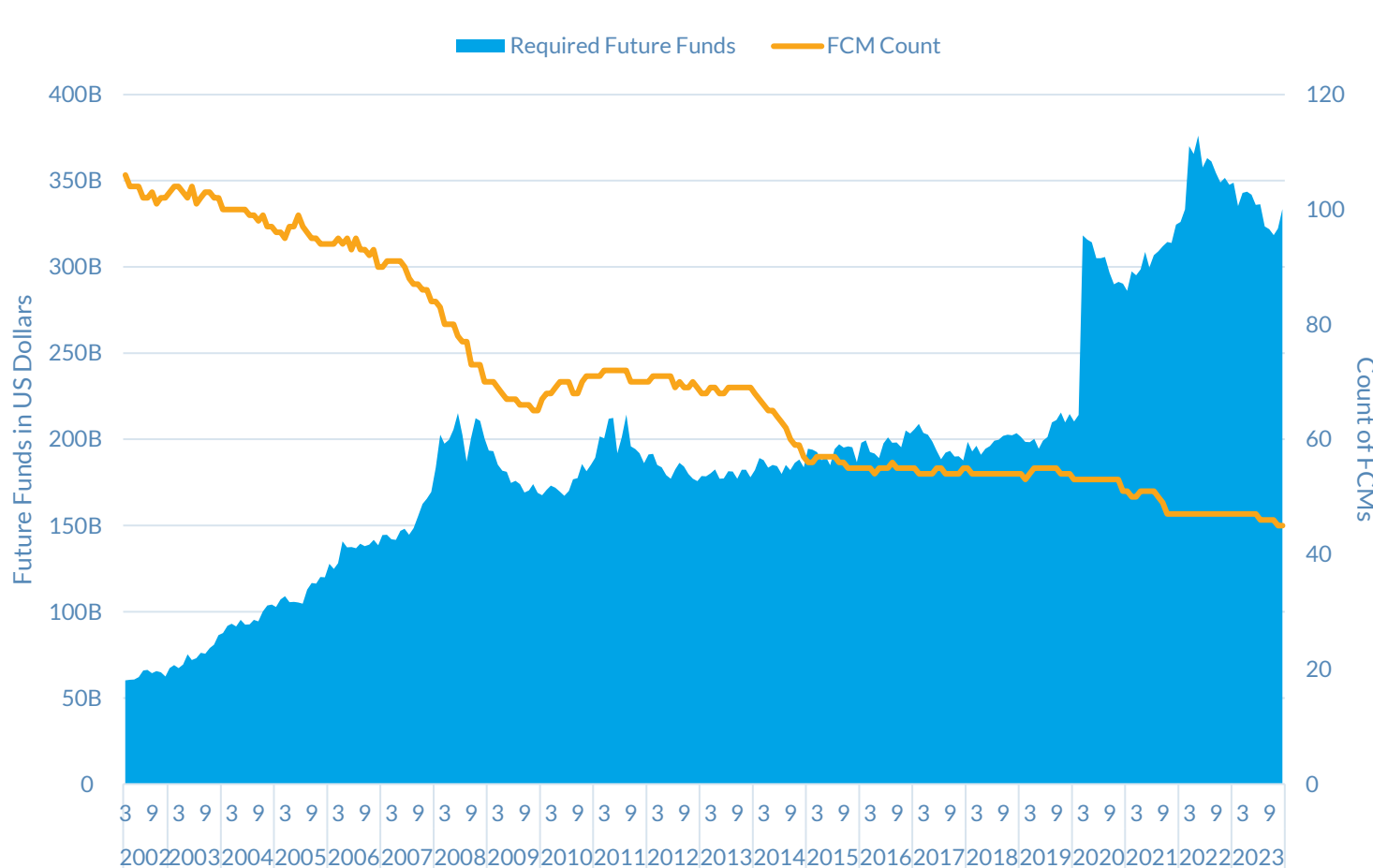
[P]art of the motivation for including the client leg of the agency model was to make sure that, for a regulatory framework that encompasses multiple models of clearing, no one model receives significantly more or less representation with respect to the GSIB indicators. The proposal was intended in part to ensure that the agency model would be adequately included in the GSIB indicators compared to the principal model. However, the expansion in the availability and overall use of the agency model somewhat mitigates concerns about the relative treatment of client-cleared transactions between respondents, and the Board is thus not currently concerned that excluding the client leg from the GSIB indicators will result in a significant disparity among reporters. Because the two clearing models remain, however, the Board may need to address inequitable treatment of client-cleared transactions in the future if the principal model again becomes more common.
- In our view nothing has changed since 2017 that would undermine this reasoning.
- LCH reports clearing over 90% of all cleared interest rate swaps globally as measured by notional amount.
- Since 2018, LCH reports SwapClear’s outstanding notional under the agency model has more than doubled
- In first six months of 2023 more than 80% of the notional swaps were cleared under the agency model.
  - Of the OTC interest rate swaps cleared through LCH under the agency model, 45% of clients (measured by number of clients) are domiciled outside the United States.
- The agency model was the first model offered for OTC clearing and is known by clients, tested and resilient.



# The Basel III Endgame Proposal

# During periods of market volatility and systemic stress, the level of customer funds held in futures accounts has risen, a sign of confidence in the legal framework and financial security of the clearing system

Customer Funds in Futures Accounts and FCM Count over Time



Rank	CFTC-Registered FCM	Customer Funds
1	JP MORGAN SECURITIES LLC	\$ 47,884,349,730
2	GOLDMAN SACHS & CO LLC	\$ 46,546,312,938
3	MORGAN STANLEY & CO LLC	\$ 36,010,750,405
4	BOFA SECURITIES INC	\$ 33,930,008,233
5	SG AMERICAS SECURITIES LLC	\$ 25,370,709,120
6	CITIGROUP GLOBAL MARKETS INC	\$ 21,592,554,910
7	BARCLAYS CAPITAL INC	\$ 21,252,038,331
8	MIZUHO SECURITIES USA LLC	\$ 11,791,280,698
9	UBS SECURITIES LLC	\$ 8,550,612,110
10	INTERACTIVE BROKERS LLC	\$ 7,835,299,290
11	ADM INVESTOR SERVICES INC	\$ 7,469,815,233
12	MAREX CAPITAL MARKETS INC	\$ 6,901,864,802
13	WELLS FARGO SECURITIES LLC	\$ 6,874,587,007
14	BNP PARIBAS SECURITIES CORP	\$ 6,656,042,000
15	STONEX FINANCIAL INC	\$ 6,184,035,541
16	RJ OBRIEN ASSOCIATES LLC	\$ 6,021,082,118
17	HSBC SECURITIES USA INC	\$ 4,779,238,582
18	MACQUARIE FUTURES USA LLC	\$ 4,732,254,536
19	WEDBUSH SECURITIES INC	\$ 3,952,305,599
20	RBC CAPITAL MARKETS LLC	\$ 3,916,308,356

Source: CFTC FCM Financial Condition Reports. Note: Customer funds include funds held in both Section 4(d) and Part 30 accounts. Fund ranking as of December 2023.

\*According to year end 2023 data from the CFTC, there are 45 registered FCMs providing customers with access to exchange traded derivatives markets, a roughly 50% decline during the past twenty years.





# Concerns about the Basel III Endgame Proposal

- **Credit Valuation Adjustment**
  - Inclusion of client clearing in the CVA framework is unnecessary as the only client-related credit risk that the clearing member faces is risk of client default, which is already captured in the existing counterparty credit risk framework.
- **Operational Risk**
  - The Endgame Proposal's approach to calculating the services component of operational risk would serve as a tax on clearing; doesn't distinguish risk and is based on gross fees.
- **Counterparty Credit Risk**
  - The requirement for an investment grade company to be publicly traded to get a lower risk weight harms end-users, many of which are not publicly traded and will therefore receive a higher risk weight.
  - SA-CCR should be revised to permit netting of STM/CTM client cleared transactions.
  - The inability to decompose options on indices within SA-CCR is problematic for listed options.

# Impact of the Basel III Endgame Proposal

- The Endgame Proposal's regulatory capital treatment of derivatives clearing activities would impose disproportionately high capital requirements on clearing (futures, options, and OTC), and disincentivize banking organizations from offering those services to clients.
- According to our QIS study, this proposal alone would increase the capital required for these six firms to engage in their current scope of client clearing activities by more than **22%**, or over **\$2.01 billion** in the aggregate.

	Percentage Increase in Capital Requirement
Operational Risk Framework	79%
CVA Framework	36%

*\*These numbers do not sum to 100 percent because the Endgame Proposal would make other changes to the counterparty credit risk framework that would decrease risk-weighted assets compared to the current US standardized approach.*

# Cumulative Impacts of B3E and GSIB on Clearing

Current US Standardized Capital Requirement - Clearing

Expanded Risk-Based (ERBA) Capital Requirement - Clearing

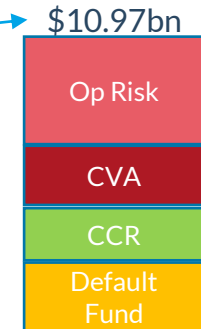
B3E Impact



GSIB Impact



+22.4% / + \$2.01bn driven by addition of Op Risk / CVA



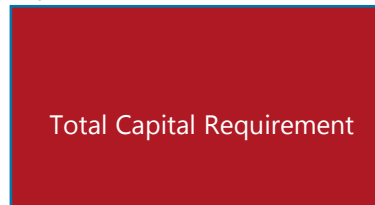
GSIB Score Change - Clearing



*(Increase overwhelmingly driven by inclusion of client cleared notional in complexity indicator)*

**+80.5% / + \$7.21bn in aggregate increase in capital**

\$16.17bn





# FIA Recommendations for the Proposals

## GSIB Recommendations

Do not add the clearing member guarantee of client performance to a clearinghouse a client cleared transaction in the Complexity and Interconnectedness indicators

## Endgame Recommendations

Revise the Proposal's approach to calculating the services component of operational risk

Exclude exposures arising from client clearing of derivatives from the CVA framework

Omit the Proposal's requirement for an investment grade obligor to be publicly traded to be eligible for a lower risk weight

Revise SA-CCR to permit netting of STM and CTM transactions against each other even when they are not "cleared transactions," a term that the capital rules define to exclude client clearing

Withdraw the Proposal's changes that would prohibit the decomposition of nonlinear instruments on indices within SA-CCR





# Broad Sampling of Public Comment Filings Highlighting Concerns w/the Impact of the Proposals on Clearing

## Agriculture

- [Agriculture Joint Trade Association Letter](#)
- [The National Grain and Feed Association \(NGFA\)](#)
- [The National Council of Farmer Cooperatives \(NCFC\)](#)

## Energy

- [Energy Joint Trade Association Letter](#)
- [The American Public Power Association and National Rural Electric Cooperative Association](#)
- [The American Council on Renewable Energy](#)
- [The National Public Gas Agency](#)
- [Huntsville Utilities](#)
- [Memphis Light, Gas and Water Division \(MLGW\)](#)
- [Community Choice Aggregators \(CCAs\)](#)
- [Arena Energy, LLC](#)

## General End-Users

- [Coalition for Derivatives End-Users](#)
- [Business Roundtable](#)

## Risk Management Advisors

- [AEGIS Hedging Solutions](#)

## Manufacturing

- [The National Association of Manufacturers](#)
- [Kaiser Aluminum Corporation](#)

## Insurance

- [The American Council of Life Insurers \(ACLI\)](#)

## Pension Funds and Investment Management

- [The California Public Employees' Retirement System \(CalPERS\)](#)
- [The State of Wisconsin Investment Board \(SWIB\) and the Ohio Public Employees Retirement System \(OPERS\)](#)
- [BlackRock](#)
- [The American Benefits Council](#)
- [The Investment Association \(IA\)](#)
- [The Dutch Federation of Pension Funds](#)

## Exchanges and Clearinghouses

- [The World Federation of Exchanges \(WFE\)](#)
- [The Global Association of Central Counterparties \(CCP Global\)](#)
- [CME Group](#)
- [Intercontinental Exchange \(ICE\)](#)
- [The Options Clearing Corporation \(OCC\)](#)
- [Cboe Global Markets](#)
- [The London Stock Exchange Group \(LSEG\)](#)
- [Nodal Clear](#)



# Conclusion

- FIA urges the Federal Reserve Board to not add the clearing member guarantee of client performance to a clearinghouse into the *Complexity and Interconnectedness* indicators of the Surcharge.
- The six US GSIBs that are the most significant clearing members in the US maintain over \$8.96 billion\* in capital solely to engage in client clearing activities.
- If adopted as proposed, the GSIB Surcharge Proposal and Endgame Proposal will increase the capital requirements for the six most significant clearing members in the US by \$7.21 billion or 80.5%.
  - The overwhelming increase in capital requirements is driven by inclusion of client cleared notionals in complexity indicator of the GSIB Surcharge.
  - Disproportionately high capital requirements will cause higher costs for clearing for end-users and for banking organizations to reconsider, or potentially reduce their clearing activity, which increases systemic risk and harms end-users' access to risk management markets.

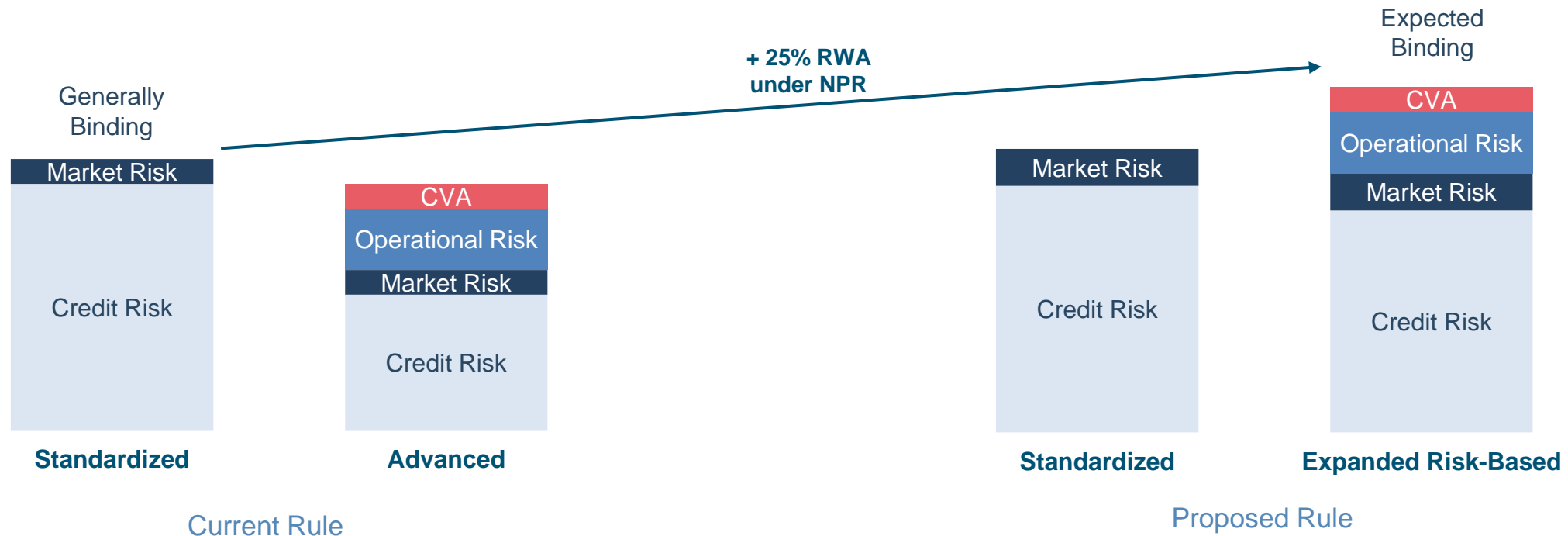
\*As of June 30, 2023



# Appendix and Additional Details of Our Concerns Related to the B3E Proposal

# The additional RWA categories under B3 Endgame: Operational Risk + CVA

*Simplified Illustration of B3E Change*



- Given applicability of SCB and on average higher RWA than Advanced, Standardized is generally the binding constraint under the current rule for US GSIBs. Standardized does not include CVA and operational risk.
- However, under the proposed rule operational risk and CVA become part of the binding constraint in the form of the expanded risk-based approach. Therefore, going forward both RWA components are completely additive capital requirements and will increase costs for end-users.

# Bilateral vs client cleared derivatives - how risks are capitalized

**Example 1: bilateral swap that is on balance sheet**  
Bank enters into a one year unmargined bilateral swap with a food producer to sell 500 000 bushels of wheat at a fixed price (contract value \$2.9MM)

**Market risk:** Bank loses \$290k due to 10% increase in wheat price  
→ Market Risk FRTB RWA capitalizes that risk

**CCR:** Bank loses \$100k in positive MtM due to default of Cpty  
→ CCR RWA capitalizes this risk (EAD \* RW based on cpty)

**CVA:** Bank loses \$10k as the positive \$100k MtM is marked down by \$10k (Valuation adjustment) due to deterioration in the Cpty credit quality  
→ CVA RWA capitalizes this risk

**Example 2: Bank acts as agent to clear a wheat future where the food producer buys 500 000 bushels of wheat at a fixed price (contract value \$2.9MM)**

**Market risk:** No impact from increase in wheat value given that client cleared trade is not on bank's balance sheet  
→ Not included in Market Risk FRTB RWA

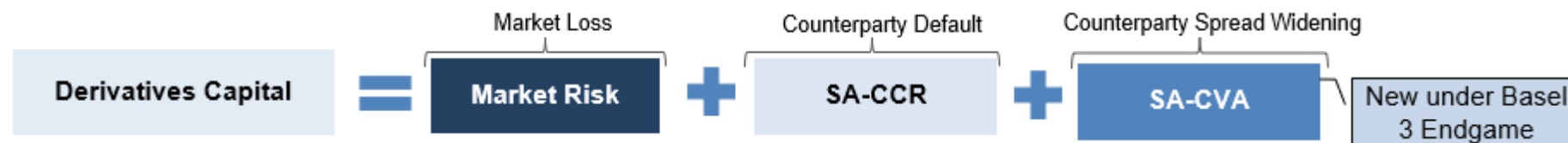
**CCR:** Bank loses \$100k in making CCP whole due to default of Cpty  
→ CCR RWA capitalizes this risk (EAD \* RW based on cpty)

**CVA:** No impact from deterioration in cpty's credit quality given that client cleared trade is not on bank's balance sheet, i.e. no P&L impact  
→ Included in CVA RWA

Similar to market risk, CVA capitalizes P&L as a result of valuation changes and hence CVA should also exclude client cleared trades from scope

# Credit Valuation Adjustment (CVA) on Client Cleared Derivatives Transactions Is Unnecessary

- **Summary of the Rule Change**
  - Additive - applies to all OTC derivatives and client cleared derivatives, including exchange-traded derivatives
  - CVA is intended to capture credit deterioration/credit spread widening of a derivative counterparty, **which is not a risk that clearing members face when providing derivatives clearing services to clients.**
- **Key Issues**
  - It is inappropriate for the framework to capitalise a risk that does not exist. We note that today CCAR stress testing through the Global Market Shock (GMS) attempts to cover CVA risk, so any RWA CVA charge would be duplicative. Furthermore, it is not appropriate to cover CVA in CCAR stress testing, given CVA risk does not exist in the context of derivatives client clearing.
  - Risk of client default, which is the main risk of loss for the clearing, is already captured through the existing counterparty credit risk default charge within SA-CCR.
  - Banks do not include client cleared derivatives in their accounting CVA as banks are not exposed to CVA risk.
  - Risk of client default is unlikely and mitigated by margin set by the clearinghouse - which doesn't vary based on the creditworthiness of the counterparty.
    - Initial margin is collected when a client opens a position.
    - At least once each day the clearinghouse recalculates the value of all outstanding positions and reimburses FCM client accounts, or collects additional variation margin from FCM clients, to cover the change in value.
  - Undermines policymakers' efforts to increase clearing.



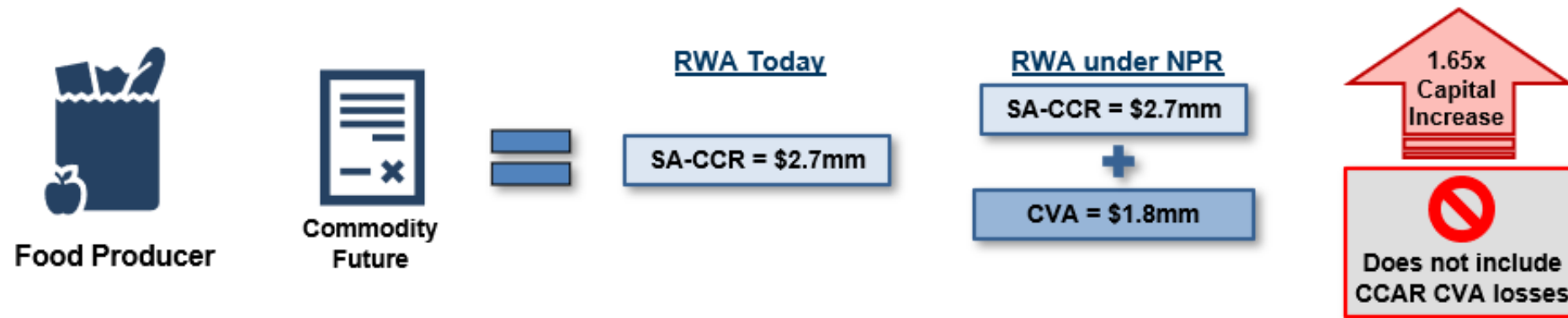
# CVA on Client Cleared Derivatives Transactions Cont.

- **Competitive Imbalance**

- EU and UK have exempted client cleared derivatives as banks cannot suffer CVA related losses on these transactions.

- **Example**

- A food producer enters into a cleared \$5bn notional cleared commodity futures to hedge against food price fluctuations.
- Under the current approach, these client transactions (cleared derivatives) would take SA-CCR charges; **under NPR, these transactions will also incur CVA charges.**
- RWA increases 1.65x under NPR (2.7mm to 4.5mm), which would directly result in higher costs charged to end users.





# The Services Component of Operational Risk is a Tax on Clearing

- **Summary of the Rule Change**

- The proposal would require banking organizations to hold capital against fee and commission-based activities, effectively without limit.
- Banking organizations with large fee-based capital markets businesses would be subject to significant capital charges and disincentivized from providing these relatively low-risk services.
- The proposal would impose capital charges based on the gross amount of income and expenses (whichever is larger) from, among other activities, retail brokerage, wealth management, custody, and client clearing.
- As an agency business, net commissions and interest represent 100% of an FCM's revenue.
- Calculating operational risk capital requirements on a gross basis would disproportionately impact derivatives clearing, even when compared to other fee-based businesses, for two reasons:
  - First, clearing members may account for these fees as their own revenues and expenses, and treatment may vary by region. As a result, clearing members can have artificially high gross revenues – gross revenues that can be multiples of the net revenues that clearing members retain. But this practice does not mean that the clearing business is any more complex or prone to operational losses.
  - Second, unlike many other fee-based businesses, the derivatives clearing business is subject to significant capital charges elsewhere in the capital rules, including the credit risk framework.





# SA-CCR Should be Revised to Permit Netting of STM/CTM Client Cleared Transactions

- SA-CCR should be revised to allow netting between trades under the same qualifying master netting agreement (QMNA), because of either (i) different margining mechanisms, or (ii) different margin period of risks (MPORs).
- **Issues Under SA-CCR Today:**
  - Ignores legally enforceable netting arrangements
  - Prevents netting of settled-to-market (STM) trades with collateralized-to-market (CTM) trades
- **How to Address the Issues:**
  - Allow all trades subject the same QMNA to be part of the same netting set, including at least netting of CTM and STM exchange traded instruments, and (ii) CTM and STM OTC cleared derivatives



# The Requirement for an Investment Grade Corporate Counterparty to be Publicly Traded for a Lower Risk Weight Eligibility Is Flawed

- **Summary of the Rule Change**

- The Endgame Proposal would make a corporate counterparty eligible for the lower risk weight of 65 percent when the corporate counterparty is “investment grade” and has a class of publicly traded security outstanding (or is controlled by a company that does).
  - Small and midsize enterprises (SMEs) would be eligible for a risk weight of 75 or 85 percent.
  - Other entities would be assigned a risk weight of 100 percent.

- **Markets Impacted**

- Given the nature of the clearing business, a substantial portion of a clearing member’s derivatives customer base is not publicly traded despite being highly creditworthy, including pension funds, insurance companies, farming and agricultural companies, public utilities, and companies that are owned by sovereign entities.
- If these customers’ derivative transactions carry higher capital charges than other customers’ transactions, they may face higher prices from banking organizations seeking to alleviate the cost pressure that the Endgame Proposal would create.

- **Competitive Imbalance**

- This has not been part of the implementation in the EU or UK.

# Investment Grade Corporate Risk Weights

The public listing requirement for investment grade entities unfairly penalizes highly-rated privately owned companies, pensions and mutual funds because the new rules deem them riskier than their public counterparts.

## Concerns and Considerations

- Banks' internal ratings are subject to **robust internal risk management and supervisory oversight**; there is **no evidence that internal ratings** for unlisted corporates are **less accurate** versus their listed equivalents
  - Public exchanges like NASDAQ and NYSE **do not have creditworthiness as a listing requirement**
- Mutual funds and pension funds have **public disclosures as robust as public companies**
- This requirement **has not been implemented in Europe**

## Example



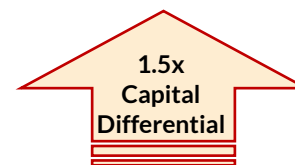
[The National Council of Farmer Cooperatives \(NCFC\)](#) - “NCFC believes cooperatives, as not being publicly traded, will be put at a disadvantage to other entities by being subjected to more expensive, and likely fewer options in assessing the derivatives markets to hedge commercial risks...”

[The California Public Employees' Retirement System \(CalPERS\)](#) - “Highly regulated, transparent, low-risk public pension funds should receive risk weightings that are commensurate with other entities that pose similar credit risks. That is not what the Proposal would do. Instead, highly regulated, transparent, low-risk public pension funds that offer significant transparency and accountability (and exhibit low actual credit risks) would be treated as posing higher credit risks than many issuers of publicly traded securities that have materially higher actual credit risks.”

[The American Council of Life Insurers \(ACLI\)](#) - “We are concerned about the proposal's disparate treatment for corporate exposures to publicly traded versus non-publicly traded life insurance companies- an approach that has not been adopted by the European Union or other foreign jurisdictions.”

RWA = 100mm with listing requirement

RWA = 65mm without listing requirement



- Agriculture and food producers protect themselves, or offset their price risks, by locking in prices using futures contracts
- Asset managers that uses interest rate swaps to match the duration of their assets and liabilities
- Insurance companies that use interest rate swaps to hedge the risk of loss on their fixed income portfolios



# The Proposal to Prohibit the Decomposition of Options on Indices within SA-CCR Should Be Withdrawn

- **Summary of the Rule Change**
  - The Endgame Proposal clarifies that banking organizations are prohibited from decomposing nonlinear index contracts, such as equity options based on an index, when calculating the exposures associated with the clearing or trading of those contracts. This leads to instances where for example listed options on almost identical underlyings (e.g., SPX vs SPY) traded by a clearing member client cannot be netted on a constituent level and instead considered different indices as part of the aggregation in the exposure at default (EAD) calculation under SA-CCR. In addition, linear transactions, e.g., futures, that if they are decomposed cannot be netted with options on these indices. This leads to an overstatement of exposures.
- **Markets Impacted**
  - Banks clear and provide funding to market makers in listed equity options which provide crucial services for price discovery and the efficiency in the equity market. This helps keeping the US capital market competitive which in turn enhances corporates' ability to raise funding in an efficient manner. Higher cost of clearing could reduce market maker's capacity to provide this service.

**FIA**

The logo consists of the letters 'F', 'I', and 'A' in a bold, sans-serif font. The 'F' is dark grey. The 'I' is dark grey. The 'A' is formed by two overlapping shapes: a light green triangle pointing up and a light blue triangle pointing down. The background features large, overlapping geometric shapes in light green, light blue, and light grey.