

**Meeting Between Staff of the Federal Reserve Board and Representatives of the
International Swaps and Derivatives Association and the Securities Industry and
Financial Markets Association
April 3, 2024**

Participants: Mark Buresh, Maria Rivera Alvarenga, Brian Chernoff, Sarah Dunning, Anna Lee Hewko, David Imhoff, Alex Jiron, and Jennifer McClean (Federal Reserve Board)

Sarah Crowley, Mark Tourangeau, and Karl Ulrich (International Swaps and Derivatives Association); Carter McDowell and Guowei Zhang (Securities Industry and Financial Markets Association)

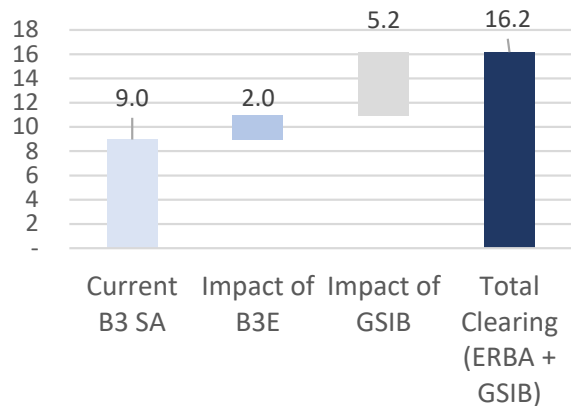
Summary: Staff of the Federal Reserve Board met with representatives of the International Swaps and Derivatives Association and the Securities Industry and Financial Markets Association (collectively, the Associations) regarding the Board's GSIB surcharge proposal and the agencies' Basel III endgame notice of proposed rulemaking. Representatives of the Associations discussed the Associations' comment letters on the proposals and the attached presentation, with particular emphasis on the impact of the proposals on derivatives clearing activities.

Attachment

FRB G-SIB changes KEY MESSAGES

March 2024

Clearing Impact

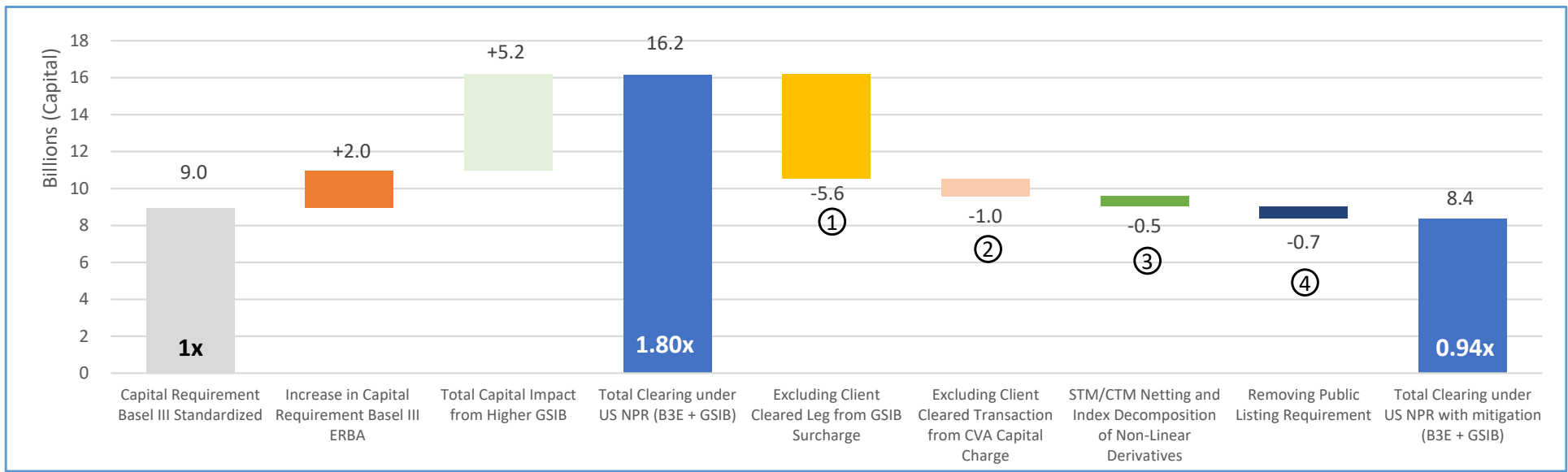


- For the clearing businesses we estimate a **\$5.2 Bn capital requirement increase** from including client clearing activity in the GSIB surcharge and a **\$2 Bn capital requirement increase** from changes due to moving from Standardized to ERBA. This is an **80% increase**.

Clearing Recommendations

- We recommend the **exclusion of client cleared exposures from GSIB surcharge** to avoid such high cost to a low margin business.
- Further we suggest to remove **client cleared transactions from CVA** that would result to \$1.0Bn capital requirement reduction.
- Such a large increase runs counter to the broader objective of encouraging central clearing, including with respect to banking organizations providing clearing services to customers.

Clearing Business Impact Summary



Impact of Quantified Mitigation Items:

1. Exclude agency client-cleared exposures from GSIB surcharge: \$5.6Bn capital requirement reduction.
2. Exclude client-cleared transactions from CVA: \$1.0Bn capital requirement reduction.
3. Net STM transactions with CTM and allow index decomposition of non-linear derivatives in SA-CCR: \$0.5Bn capital requirement reduction
4. Remove public listing requirement for recognition of investment grade corporate debt as collateral: \$0.7Bn capital requirement reduction.

ISDA/SIFMA Proposals

- **Client-cleared derivatives** cleared under the agency model should not be included in the **complexity and interconnectedness** categories of the GSIB surcharge calculation.
- Derivatives exposures should not be included in the **cross-jurisdictional activity indicators**. At a minimum, derivatives exposures should be net of collateral in the cross-jurisdictional activity indicators.
- The **SA-CCR alpha factor should not be included** in the interconnectedness indicators calculations.

QIS Results

Proposal	GSIB Points
Derivatives notional exposures cleared under the agency model in the complexity indicator	69.4
Derivatives notional exposures cleared under the agency model in the interconnectedness indicators	4.5
Expanding the FI definition and the implementation of SA-CCR	- 7.0
Total	67.0
Capital impact	\$5.2 bn

Discussion

- Banking organizations' guarantees of client performance to a CCP with respect to client-cleared derivatives should not be included in either the complexity or interconnectedness category because client-cleared derivatives present low levels of risk to individual banking organizations and reduce systemic risk.
- The proposed change to the treatment of client-cleared derivatives would depart sharply from the well-functioning framework currently in place without sufficient explanation.
- The proposed change to the treatment of client-cleared derivatives would contravene the long-standing public policy objective to promote central clearing.

Impact on Clearing Business

- Endgame proposals and GSIB changes would increase capital requirements for clearing businesses by 80%.
- Clearing business could get under pressure to
 - Increase fees and other costs for clients
 - Be more selective which clients and which types of portfolios they accept for clearing.
 - Less willingness/ability of porting in case of a CM failure.