May 21, 2018

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

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street, SW., Suite 3E-218
Washington, DC 20219

Re: FIA Comment on Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies [Docket No. R-1604, Docket ID OCC-2018-0002, and RIN 7100 AF-03], and Amendments to the Regulatory Capital, Capital Plan, and Stress Test Rules [Docket No. R-1603 and RIN 7100-AF 02]

Dear Sirs and Madams:

The Futures Industry Association ("FIA")[1] appreciates the opportunity to comment on the April 11, 2018 proposal by the Board of Governors of the Federal Reserve System (the "Federal Reserve") and the Office of the Comptroller of the Currency ("OCC") to revise the enhanced Supplementary Leverage Ratio ("eSLR") that applies to U.S. global systemically important banking organizations ("G-SIBs") and the April 10, 2018 proposal by the Federal Reserve to implement a stress capital buffer ("SCB") for bank holding companies with $50 billion or more in total consolidated assets and U.S. intermediate holding companies of foreign banking organizations established pursuant to Regulation YY.

For years, FIA has highlighted its serious concerns with the treatment of cleared derivatives in the current capital framework. Most significantly, "total leverage exposure," the denominator of the Supplementary Leverage Ratio ("SLR") and eSLR, substantially overstates a banking organization's exposure arising out of its guarantee of its client's obligation to a central counterparty by failing to recognize the effect of initial margin provided by the client on reducing the banking organization's actual economic exposure. Overstatement of exposure from derivatives clearing also occurs within the Current Exposure Method ("CEM"), an overly blunt and conservative methodology used in leverage-based and standardized risk-based capital

1 FIA is the leading global trade organization for the futures, options and centrally cleared derivatives markets, with offices in London, Singapore and Washington, D.C. FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from more than 48 countries, as well as technology vendors, lawyers and other professionals serving the industry.

requirements, and from the G-SIB surcharge methodology, which unnecessarily and inappropriately counts certain clearing activities multiple times across several indicators.

As is detailed in our prior letters and testimony,[2] including the letters attached in Annex A, this overstatement has created significant disincentives for banking organizations to allocate capital to offer clearing services, which has made it more challenging for market participants to access cleared products, and has thus resulted in increased costs. Systemic risk has increased because market participants now find it difficult to access or afford cleared derivatives to hedge their economic risk, and because in times of system-wide stress, when banking organizations' capital ratios are depressed, banking organizations would be less willing to take on a book of positions from a failing clearing member. These results are at odds with global policies designed to promote the appropriate use of centrally cleared derivatives, including the Pittsburgh G20 commitments, which the Dodd-Frank Act translated into binding legal requirements in the United States.

In this context, FIA strongly supports the agencies' goal of adopting a "more firm-specific and risk-sensitive approach" to reduce the substantial disincentive that the current SLR and eSLR have created for banking organizations to participate in low-risk, low-return businesses such central clearing of derivatives. Together, the agencies' proposals would take an important **first step** in furthering this goal by, among other things, replacing the flat eSLR buffer that currently applies to the U.S. G-SIBs and their insured depository institution subsidiaries with a more risk-sensitive eSLR, and not adding a stress buffer to the SLR. We support both of these aspects of the proposals.

However, as discussed in Part I of this letter, FIA believes that even if the Federal Reserve and OCC adopted the proposals in their proposed form, the "total leverage exposure" definition, CEM, and the G-SIB surcharge methodology would continue to influence banking organizations' capital allocation decisions so as to disincentivize central clearing. Moreover, as discussed in Part II, the proposals would leave U.S. banking organizations and their clearing clients at a competitive disadvantage. Accordingly, while we support an overall recalibration of the SLR and eSLR, we continue to urge the U.S. banking agencies to take further steps, including amending the definition of "total leverage exposure" to recognize the exposure-reducing effect of initial margin in a cleared derivative transaction, adopting the Standardized Approach for Counterparty Credit Risk ("SA-CCR") with appropriate modifications within leverage- and standardized risk-based capital requirements, and eliminating the G-SIB surcharge methodology's multiple counting of clearing activities.

[2] *See, e.g.*, FIA, Global Trade Associations, and CCP Letter to Basel Committee (Nov. 18, 2014), *available at* https://fia.org/articles/fia-global-requests-segregated-margin-be-excluded-basel-iii-capital-requirements; FIA and President and CEO Walt Lukken Written Testimony to House Agriculture Committee (Apr. 26, 2016), *available at* https://fia.org/articles/fia-president-testifies-impact-capital-and-margin-requirements; FIA Response to Basel Leverage Ratio Consultation (July 6, 2016), *available at* https://fia.org/articles/fia-analysis-leverage-ratio-proposals-will-negatively-impact-client-clearing; FIA, CME, CME Group, and ICE Letter to Rep. Leutkemeyer (Feb. 12, 2018), *available at* https://fia.org/articles/fia-supports-us-legislation-recognize-client-margin-offset; FIA and President and CEO Walt Lukken Written Testimony to House Financial Services Committee (Feb. 14, 2018), *available at* https://fia.org/articles/fia-supports-us-legislation-recognize-client-margin-offset.

I. The Proposals Would Not Eliminate Disincentives to Clear Derivatives Created by the Current Capital Regime

A. The Definition of "Total Leverage Exposure" Would Continue to Disincentivize Clearing Derivatives Under the Proposals

Replacing the current fixed 2 percent eSLR with a measure equal to 50 percent of the G-SIB surcharge numerator would not be sufficient to remove the artificial disincentives to clear derivatives that the definition of "total leverage exposure" has created for U.S. G-SIBs. If the agencies finalized the proposals in their current form, the definition of "total leverage exposure" would continue to drive U.S. G-SIBs away from central clearing for a number of reasons:

- ***The eSLR Proposal Would Provide Limited Immediate Relief From Leverage Capital Requirements for Some U.S. G-SIBs.*** According to the agencies' own analysis, the eSLR proposal would reduce the amount of Tier 1 capital required across the eight U.S. G-SIBs by $400 million, which is just 0.04 percent of the amount of Tier 1 capital maintained by those institutions as of the third quarter 2017.[3] For some U.S. G-SIBs, the proposal would reduce the eSLR by just 0.25 or 0.5 percent based on their current G-SIB surcharge scores. While this relief is appreciated, for some U.S. G-SIBs – including those with significant clearing operations – the eSLR would continue to be close enough to the binding capital constraint that they would allocate capital to business lines, asset classes, and clients with a view to the eSLR. And the eSLR proposal would not address the key policy issue of inaccurately measuring the leverage exposure arising from a banking organization providing low-risk derivatives clearing services to their clients. As such, most U.S. G-SIBs will continue to be disincentivized from allocating capital to businesses that contribute disproportionately to the firm's "total leverage exposure," or that cannot, on a standalone basis, meet return-on-equity targets that are based in part on the business line's contributions to "total leverage exposure." Derivatives clearing desks fall within both categories. Additionally, the agencies' impact estimates are based on current G-SIB surcharge capital buckets, which reflect the substantial efforts that banking organizations have *already made* to minimize their G-SIB surcharge scores, including cutting back on clearing activity for clients. Without a more meaningful reduction in eSLR requirements, some U.S. G-SIBs may not be able to justify restoring their clearing activity to healthier levels.

- ***The eSLR Proposal Could <u>Raise</u> Leverage Capital Requirements Over Time.*** While the eSLR proposal would reduce the eSLR requirements of the U.S. G-SIBs based on their *current* G-SIB surcharge scores, those scores may well increase in the future. In particular, because Method 2 indicators of the G-SIB surcharge assessment methodology are fixed, not relative, any increase in economic growth and corresponding increase in financial activity will tend to increase G-SIB surcharge scores.[4] If and when G-SIB surcharge scores

---

[3] 83 Fed. Reg. 17,317, 17,321 (Apr. 19, 2018).

[4] *See* 80 Fed. Reg. 49,082, 49,085 (Aug. 14, 2015) (Federal Reserve acknowledging that "[s]cores calculated under the fixed approach could be influenced by factors unrelated to systemic risk such as general

increase beyond their current levels, the proposal could have the effect of *increasing* eSLR requirements for some U.S. G-SIBs. This result would defeat the proposal's stated purpose of "ensur[ing] that leverage requirements generally serve as a backstop to risk-based capital requirements."[5] While we believe the G-SIB surcharge methodology should be amended to address its punitive impacts on clearing businesses as discussed in Section I.C. below, to promote greater alignment with international standards and ensure the eSLR remains a backstop, the eSLR requirement should be equal to 50 percent of the G-SIB surcharge numerator as calculated under *Method 1 only*.

- ***The G-SIB Surcharge Incorporates "Total Leverage Exposure."*** Client cleared derivatives exposures contribute substantially to G-SIB surcharge scores, which, under the eSLR proposal, would be a determinant of the required numerator of the eSLR. As a result, client cleared derivatives would contribute to both the denominator of the eSLR ***and*** the requisite eSLR numerator. This double-count will put substantial pressure on derivatives clearing businesses to minimize their contributions to their organizations' "total leverage exposure." In addition, under the SCB proposal, the G-SIB surcharge would have increased importance in risk-based capital requirements, as that proposal would effectively incorporate the G-SIB surcharge into post stress-test risk-based capital requirements. Thus, even as a matter of complying with *risk-based* capital requirements, U.S. G-SIBs would closely manage and seek to minimize "total leverage exposure" by limiting low-return businesses that contribute disproportionately to "total leverage exposure," such as client clearing activity. Moreover, the G-SIB surcharge currently is, and under the eSLR proposal would further become, a significant determinant of total loss absorbing capacity (TLAC) and long-term debt (LTD) requirements, which provides additional impetus for U.S. G-SIBs to limit their client clearing activity.

- ***The G-SIB Surcharge Methodology Could Become More Stringent.*** In March 2017, the Basel Committee on Banking Supervision issued a consultative document to revise the international G-SIB surcharge methodology in a number of respects that would increase institutions' G-SIB surcharge scores, such as adding assets and liabilities from positions in derivative contracts to the cross-jurisdictional indicators and arbitrarily removing the existing "cap" on the Substitutability indicator of the G-SIB methodology.[6] And in August 2017 the Federal Reserve released proposed changes to the FR Y-15 reporting form that would dramatically increase the extent to which client clearing activity would contribute to a U.S. G-SIB's G-SIB surcharge score.[7] If the Federal Reserve adopted any of these

---

economic growth. Method 2 does not include an automatic mechanism to adjust for such potential effects in order to avoid unintended consequences.").

[5] 83 Fed. Reg. at 17,320.

[6] *See* Basel Committee on Banking Supervision, Global Systemically Important Banks - Revised Assessment Framework, Consultative Document (Mar. 30, 2017), *available at* https://www.bis.org/bcbs/publ/d402.htm.

[7] FIA strongly objects to these changes to the FR Y-15 reporting form and encourages the Federal Reserve to withdraw them formally. For more detail on FIA's position, see FIA and ISDA Comment on

> proposed revisions, the G-SIB surcharge scores for the U.S. G-SIBs would be likely to increase. For the reasons discussed above, any increase in G-SIB surcharge scores would further disincentivize the U.S. G-SIBs from engaging in client clearing.

With respect to banking organizations that are *not* U.S. G-SIBs, but are nevertheless subject to the SLR in the United States, we appreciate that the SCB proposal would not incorporate a stress buffer into the SLR, and therefore that such banking organizations would not be required to satisfy the SLR on a post-stress basis. FIA supports this aspect of the SCB proposal.

We believe that even if the SCB proposal were finalized in its current form, however, even banking organizations that are not U.S. G-SIBs would remain disincentivized from engaging in clearing activity in the United States. The SLR first became a post-stress test minimum requirement in the 2017 stress test cycle. Several banking organizations stopped clearing derivatives for clients in the U.S. market or globally before the beginning of the 2017 CCAR exercise, and in many cases, specifically cited the SLR as the reason that they exited the market.[8] Some of these banking organizations ceased clearing on the eve of SLR disclosure requirements coming into effect on January 1, 2015.[9] This history suggests that the point-in-time, ongoing SLR requirement alone creates substantial disincentives for a banking organization to clear derivatives.

B. CEM Would Continue to Disincentivize Clearing Derivatives Under the Proposals

CEM, introduced in the U.S. in 1988, is an overly blunt measurement of derivatives exposures that has not kept pace with the evolution of the derivatives markets. CEM generally overstates derivatives exposures due to the conservative and inaccurate assumptions incorporated in its methodology. For instance, as Federal Reserve Chairman Jerome H. Powell has said, CEM "generally treats potential future credit exposures on derivatives as a fixed percentage of the

---

FR Y-15 Proposal (Oct. 11, 2017), *available at* https://fia.org/articles/fia-and-isda-comment-unwarranted-g-sib-surcharge-capital-requirements; and FIA and ISDA Supplemental Comment on FR Y-15 Proposal (Nov. 22, 2017), *available at* https://fia.org/articles/fia-and-isda-bolster-argument-against-cleared-swap-surcharge-additional-information.

8 These banking organizations include Deutsche Bank, RBS, Bank of New York Mellon, and State Street. *See* Deutsche Bank Walks Away From US Swaps Clearing, Financial Times (Feb. 9, 2017), *available at* https://www.ft.com/content/2392bc42-ee47-11e6-930f-061b01e23655; State Street Exiting Swaps Clearing Business, Citing New Rules, Bloomberg (Dec. 4, 2014), *available at* https://www.bloomberg.com/news/articles/2014-12-04/state-street-exiting-swaps-clearing-business-citing-new-rules; RBS to Wind Down Swaps Clearing Units, Reuters (May 19, 2014), *available at* http://uk.reuters.com/article/uk-rbs-primeservices-divestiture-idUKKBN0DY0PU20140519; BNY Mellon Closes U.S. Derivatives Clearing Business, Pension & Investments (Dec. 20, 2013), *available at* http://www.pionline.com/article/20131210/ONLINE/131219993/bny-mellon-closes-us-derivatives-clearing-business.

9 *See id.* (State Street and Deutsche Bank). We note as well that Bank of New York Mellon announced its exit from clearing prior to the U.S. banking agencies' adoption of the eSLR, and State Street announced its exit prior to the eSLR coming into effect.

notional amount, which ignores whether a derivative is margined and undervalues netting benefits."[10] Similarly, Commodity Futures Trading Commission Chairman J. Christopher Giancarlo recently issued a report that is sharply critical of CEM and catalogs some of CEM's shortcomings.[11]

CEM's overstatement of exposure is critical because CEM is embedded in both standardized risk-based and leverage-based capital requirements. Under the proposals, standardized risk-based capital requirements will have heightened importance, because they (1) would be more likely in the immediate term to serve as a banking organization's binding capital constraint than leverage-based capital requirements, due to the adoption of the SCB and change in eSLR methodology, (2) would be more likely to serve as a binding constraint than advanced approaches risk-based capital requirements, due to the lack of an SCB incorporated in the advanced approaches framework, and (3) generally would result in an increase in capital for U.S. G-SIBs, due to the adoption of the SCB.

SA-CCR, which has been adopted internationally but not in the United States, is generally an improvement over CEM for cleared over-the-counter ("OTC") derivatives. However, SA-CCR is not a perfect measure of a banking organization's exposure in a derivative transaction, for several reasons:

- ***Recognition of Margin:*** In the risk-based context, SA-CCR does not recognize the full value of initial margin posted by a banking organization's counterparty. In the Basel leverage ratio context, SA-CCR does not recognize initial margin at all within the calculation of potential future exposure ("PFE"). Consistent with the way margin is treated as a matter of internal risk management, legal agreements, and balance sheet accounting, when implemented in the United States within standardized risk-based capital requirements and the SLR, SA-CCR should fully recognize the exposure-reducing effect of initial margin and variation margin.

- ***Alpha Multiplier:*** SA-CCR includes a 1.4x "Alpha" multiplier that is based on outdated data that do not reflect current market practices, including wider portfolio diversification, clearing, and margining practices, and was designed to account for internal model risk rather than to be part of a standardized methodology.[12] The 1.4x multiplier artificially and

---

[10] *See* Federal Reserve Governor Jerome H. Powell, Central Clearing and Liquidity, Speech at the Federal Reserve Bank of Chicago Symposium on Central Clearing, Chicago, Illinois (June 23, 2017), *available at* https://www.federalreserve.gov/newsevents/speech/powell20170623a.htm.

[11] *See* Commodity Futures Trading Commission Chairman J. Christopher Giancarlo and Chief Economist Bruce Tuckman, Swaps Regulation Version 2.0: An Assessment of the Current Implementation of Reform and Proposals for Next Steps, at pp. 58–70 (Apr. 26, 2018), *available at* https://www.cftc.gov/PressRoom/PressReleases/7719-18 (stating that aspects of CEM "range from inadequate to arbitrary," constitute a "poor measure" of swaps risk, and can result in a "bizarre, unintended consequence").

[12] *See* Basel Committee on Banking Supervision, The Standardised Approach for Measuring Counterparty Credit Risk Exposures, at p. 1 (March 2014; rev. April 2014), *available at*

needlessly inflates exposure values, and as such, disincentivizes clearing. Accordingly, the banking agencies should reduce the 1.4x "Alpha" factor, for both standardized risk-based and leverage-based capital requirements, when adopting SA-CCR in the United States.

- ***Netting:*** Industry standard netting agreements and governing law permit banking organizations to net exposures to a derivatives counterparty across asset classes, and banking organizations rightfully manage their counterparty credit risk on that basis. But SA-CCR does not permit netting across asset classes. Consistent with legal arrangements and risk management practices, SA-CCR as implemented in the United States should permit netting across asset classes.

C. The G-SIB Surcharge Methodology Would Continue to Disincentivize Clearing Derivatives Under the Proposals

As noted above, the proposals would make the G-SIB surcharge one of the most important determinants of risk-based *and* leverage-based capital requirements, as well as TLAC and LTD requirements. The current G-SIB surcharge methodology, however, substantially overstates exposure from certain derivatives clearing activities by counting those activities within multiple indicators: Complexity, Interconnectedness, and Size.[13]

This duplicative counting of certain derivatives clearing activities is unwarranted based on the underlying purposes of the G-SIB surcharge indicators. With respect to Complexity, central clearing helps to mitigate systemic risk and provides transparency by replacing the complex web of bilateral ties between market participants with a more transparent CCP system.[14] With respect to Interconnectedness, the Federal Reserve has described the purpose of the indicator as capturing the likelihood that "financial distress at a G-SIB may materially raise the likelihood of distress at other firms."[15] Central clearing through a CCP greatly reduces the universe of counterparties that are exposed to a clearing member G-SIB as compared to bilateral derivative arrangements, and

---

https://www.bis.org/publ/bcbs279.htm ("[A]lpha equals 1.4, which is carried over from the alpha value set by the Basel Committee for the Internal Model Method (IMM).").

[13] Clearing activity captured within all three indicators includes derivatives clearing conducted by a banking organization on a "financial intermediary" or "principal-to-principal" basis, under which the bank engages in equal and offsetting trades with the client and the CCP, which is common in Europe. Standard market documentation in Europe provides that a clearing member bank's obligation to its client is relieved if, and to the extent that, the CCP defaults in its obligations to the bank. In such circumstances, the economic effect on the bank is similar under either the U.S.-centric agency model or European-centric principal-to-principal model: in both cases, the bank's economic exposure is a residual one, arising only if (1) the client defaults, and (2) the margin posted is insufficient to cover the client's exposure.

[14] Additionally, the Complexity indicator is particularly punitive of the derivatives clearing activity that it captures, because it uses *notional value* of cleared derivatives rather than fair value or potential future exposure to measure the banking organization's complexity. Notional value is a poor proxy for risk or complexity.

[15] 79 Fed. Reg. 75,473, 75,485 (Dec. 18, 2014).

thus plainly results in the G-SIB being less interconnected with other firms.[16] Central clearing also reduces systemic risk overall by facilitating the transfer (or "port") of the positions of a distressed clearing member G-SIB's clients to other, financially sound clearing members in a simple and rapid manner.[17] Thus, any systemic risk resulting from a clearing member G-SIB's clearing activity is already captured – indeed, is overstated – in the G-SIB surcharge through the Size indicator. We accordingly urge the Federal Reserve to amend the FR Y-15 reporting instructions to exclude all derivatives clearing activity from the Complexity and Interconnectedness indicators of the G-SIB surcharge.

II. The Proposals Would Leave U.S. Banking Organizations and Their Clearing Clients at a Competitive Disadvantage

Even if the agencies finalized the eSLR proposal and SCB proposal, U.S. banking organizations and their clients would remain at a disadvantage to their competitors located abroad in several respects if the agencies did not also revise the capital rules' treatment of client clearing activities:

- First, the European Commission has proposed, and by every indication appears set to finalize, a leverage ratio that would recognize the exposure-reducing effect of initial margin provided by a client under the European leverage ratio.[18] Similarly, the Bank of England has announced its support for the leverage ratio to provide an offset for client initial margin, suggesting that the UK may implement such an offset domestically.[19]

---

16 See Froukelien Wendt, Central Counterparties: Addressing their Too Important to Fail Nature, IMF Working Paper, p. 6 (Jan. 2015), *available at* https://www.imf.org/external/pubs/ft/wp/2015/wp1521.pdf ("The establishment of a CCP reduces the interconnectedness of banks. A CCP guarantees the performance of open positions despite the failure of one of the clearing members. In that sense a CCP that is well designed and capitalized insulates counterparties from one another. In its role of firewall a CCP can be considered a prudential tool to reduce the interconnectedness among banks.").

17 *See* Dietrich Domanski, Leonardo Gambacorta, and Cristina Picillo, Central Clearing: Trends and Current Issues, Bank for International Settlements Quarterly Review, p. 61 (Dec. 6, 2015), *available at* http://www.bis.org/publ/qtrpdf/r_qt1512g.htm.

18 *See* Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements and amending Regulation (EU) No 648/2012, *available at* http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2016:0850:FIN.

19 *See* Bank of England, Financial Stability Report, at p. 62 (Nov. 28, 2017), *available at* https://www.bankofengland.co.uk/financial-stability-report/2017/november-2017.

- Second, the Basel Committee has adopted, and the European Commission has proposed to adopt, SA-CCR in the leverage ratio. SA-CCR generally results in lower exposures for cleared OTC derivatives than does CEM.[20]

- Third, the Federal Reserve's G-SIB surcharge methodology, by including Method 2, results in significantly higher scores than does the Basel Committee's G-SIB methodology, which only includes Method 1. Thus, even though the Basel Committee has finalized a leverage ratio buffer for G-SIBs[21] that is ostensibly similar to the proposed eSLR, in that both measures are calibrated at 50 percent of the G-SIB surcharge numerator, the eSLR will in fact remain much more stringent due to the comparative stringency of the U.S. G-SIB surcharge itself. As a result, the failure of the U.S. definition of "total leverage ratio" to recognize an offset for client initial margin has amplified negative consequences in the United States.

- Fourth, the Basel Committee's leverage ratio buffer will be implemented beginning on January 1, 2022, while the existing eSLR has been effective in the United States since January 1, 2018. Even this temporary discrepancy may cause a further migration of clearing activity to markets outside the United States.

These results are inconsistent with the President's Executive Order establishing Core Principles for Regulating the United States Financial System, which provides that U.S. financial regulations should "enable American companies to be competitive with foreign firms in domestic and foreign markets."[22] The U.S. banking agencies should seek to level the playing field and reestablish the competitiveness of the U.S. market for cleared derivatives.

III. Summary of Recommendations

FIA supports the Federal Reserve's and OCC's goal of recalibrating the SLR and eSLR so that those requirements serve as a backstop to risk-based capital requirements. Unless the U.S. banking agencies modify their proposals and the current capital framework's specific treatment of derivatives clearing, however, the SLR and eSLR will continue to disincentivize U.S. banking organizations from providing derivatives clearing services to their clients. Market participants will continue to struggle to access cleared derivatives and/or face higher prices, systemic risk will remain needlessly elevated, and U.S. market participants will remain competitively disadvantaged.

We therefore recommend a number of changes to the proposals and existing capital framework.

---

[20] We note, however, that SA-CCR without an offset for initial margin provided by a client generally does not result in lower exposures for exchange-traded derivatives (ETDs) compared to CEM. *See* Annex A.

[21] *See* Basel Committee on Banking Supervision, Basel III: Finalising Post-Crisis Reforms, at p. 141 ¶ 9 (Dec. 7, 2017), *available at* https://www.bis.org/bcbs/publ/d424.htm.

[22] Presidential Executive Order on Core Principles for Regulating the United States Financial System, § 1(d) (Feb. 3, 2017), *available at* https://www.whitehouse.gov/presidential-actions/presidential-executive-order-core-principles-regulating-united-states-financial-system/.

First, the agencies should replace the current fixed 2 percent eSLR for U.S. G-SIBs and their insured depository institution subsidiaries with a measure equal to 50 percent of the G-SIB surcharge numerator as calculated under Method 1, *not* Method 2, regardless of which measurement produces the greater capital requirement. As discussed above, this refinement would reduce the odds that the eSLR proposal would have the unintended effect of *increasing* the eSLR.

Second, the U.S. banking agencies should amend the definition of "total leverage exposure" such that a banking organization's leverage exposure arising out of its guarantee to a central counterparty in a cleared derivative transaction is reduced by the amount of initial margin provided by the client.

Third, the U.S. banking agencies should revise the calculation of "total leverage exposure" and standardized risk-based capital requirements to incorporate SA-CCR with appropriate modifications. These modifications should include full recognition of variation margin and initial margin, a downward recalibration of SA-CCR's 1.4x "Alpha" factor, and recognition of netting across asset classes.

Finally, the Federal Reserve should amend the FR Y-15 reporting form instructions so that derivatives clearing activity counts only towards the Size indicator and not the Complexity or Interconnectedness indicators of the G-SIB surcharge methodology.

* * *

We look forward to engaging with the Federal Reserve and OCC on the matters discussed in this letter. Please contact Jacqueline Mesa, Senior Vice President of Global Policy at FIA, if you have any questions.

Respectfully Submitted,

Walt L. Lukken

Walt L. Lukken
President and Chief Executive Officer
Futures Industry Association

cc: Benedetto Bosco, Chief, Capital Policy, Federal Deposit Insurance Corporation

Annex A

FIA's July 6, 2016 Letter to the Basel Committee on Banking Supervision