June 18, 2026

Benjamin W. McDonough
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Regulatory Capital Rule (Regulation Q): Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15) (Docket No. 1889; RIN 7100-AH22)

Dear Sirs and Madams:

The Futures Industry Association ("FIA")[1] appreciates the opportunity to comment on the Federal Reserve's proposal (the "Proposal") to revise the capital surcharge that applies to U.S. globally systemically important bank holding companies ("G-SIB Surcharge").[2]

At the outset, FIA commends the Federal Reserve for the thoughtful and constructive revisions the federal banking agencies have made to their prior capital proposals from 2023.[3] Most notably, we appreciate that the Proposal does not add a clearing member's exposure arising out of its guarantee of a client's obligation to a central counterparty ("CCP") to the G-SIB Surcharge's Complexity or Interconnectedness indicators. This change represents important progress toward ensuring that bank capital standards do not unnecessarily discourage central clearing of derivatives. As Federal Reserve officials have consistently observed, regulators have

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[1] FIA is the leading global trade organization for the futures, options and centrally cleared derivatives markets, with offices in Brussels, London, Singapore and Washington, D.C. FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from about 50 countries as well as technology vendors, law firms and other professional service providers. FIA's mission is to: support open, transparent and competitive markets; protect and enhance the integrity of the financial system; and promote high standards of professional conduct. As the principal members of derivatives clearinghouses worldwide, FIA's clearing firm members play a critical role in the reduction of systemic risk in global financial markets.

[2] 91 Fed. Reg. 14,908 (Mar. 27, 2026).

[3] *See* Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity, 88 Fed. Reg. 64,028 (Sept. 18, 2023); Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15), 88 Fed. Reg. 60,385 (Sept. 1, 2023).

a responsibility to ensure that prudential requirements support, rather than undermine, the use of central clearing as a tool to reduce systemic risk.[4]

Consistent with that objective, FIA also recommends additional revisions to the FR Y-15 reporting instructions so that derivatives exposures that are cleared transactions are not counted toward the Cross-Jurisdictional Activity indicator, similar to the proposed instructions' treatment of exposures from client clearing of derivatives. Additionally, we support aspects of the proposed revisions of the instructions that would not apply an alpha factor to derivatives exposures for purposes of the Interconnectedness indicator. Finally, the final rule should confirm that it is not mandatory for cross-product netting to be incorporated into relevant indicators of the G-SIB Surcharge that count derivatives exposures.

After providing an overview of client clearing and how it reduces risk to banking organizations and the financial system, we discuss each of these points in turn below.

I. Regulators Encourage Client Clearing Because It Reduces Systemic Risk in the Aggregate and Is a Low-Risk Activity for Clearing Members

A wide variety of businesses across many different sectors, including agricultural businesses, insurance companies, and pension funds, use derivatives to reduce their risks from various economic activities. To promote continued and expanded access to derivatives by these end users, the Federal Reserve should consider the following principles as it moves to finalize the Proposal and considers the feedback in this letter:

- **U.S. and global policies are intended to incentivize client clearing**. To promote the continued, long-term availability of beneficial hedging activity, regulators have promoted central clearing of derivatives as a key element to financial reform because it greatly reduces risk in the financial system that could arise from financial institutions' role in providing their clients access to swaps and futures.[5] Today, a majority of OTC derivative products are centrally cleared through regulated clearinghouses and a growing number of

[4] *See, e.g.*, Federal Reserve Board 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.

[5] The Pittsburgh G20 commitments of 2009 establish a clear policy that mandatory clearing of certain derivatives is essential to improving risk management and promoting financial stability. Among other elements of this policy, the G20 commitments endorse lower capital requirements for cleared derivatives. *See* Leaders' Statement, The Pittsburgh Summit, September 24-25 2009, *available at* https://www.oecd.org/g20/summits/pittsburgh/G20-Pittsburgh-Leaders-Declaration.pdf. The Dodd-Frank Act translated the G20 policy goal of promoting central clearing into binding requirements in the United States.

derivatives are traded on regulated trading venues,[6] bringing more transparency and oversight to these markets than ever before, and substantially reducing their complexity.

- **Client clearing decreases systemic risk.** 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. This system reduces the number of entities to which market participants are exposed, and also reduces systemic risk by facilitating the transfer (or "port") of the positions (and collateral) of a defaulting clearing member's clients to other, financially sound clearing members in a simple and rapid manner, with the goal of preserving the end-users' positions while protecting any collateral pledged.

- **Client clearing is fundamentally a low-risk activity for the clearing member.** Not only does client clearing reduce systemic risk in the aggregate, it also does not create outsized risks for clearing members. Under the agency model of clearing that is prevalent in the United States, a banking organization acts as agent for its client, which enters into the OTC derivative transaction directly with a CCP. The banking organization typically guarantees the client's performance to the CCP, but not the CCP's performance to the client. Several features of client clearing protect the clearing member against the risk that its client would default on its obligation to the CCP without having posted sufficient margin to cover the client's payment obligation, requiring the clearing member to perform on its guarantee to the CCP. First, on a daily or twice-daily basis, the client is either required to post variation margin in the form of cash to secure the full amount that it is out of the money on the derivative on a mark-to-market basis (in a collateralized-to-market, or CTM trade) or is required to provide an equivalent cash payment to settle the derivative (in a settled-to-market, or STM trade), and in either case this practice eliminates the clearing member's actual current exposure to the client at the time the variation margin is posted or payment is made. Second, the client is also required to post initial margin in the form of cash or highly liquid securities to secure the clearing member's exposure to movement in market prices, in an amount based on the volatility of the derivative but in excess of the expected change in value of the client's position,[7] which reduces the clearing member's actual potential future exposure. Third, clearing members pre-fund the loss mutualization that would arise from the default of another clearing member with default fund contributions. CCPs' own capital and other safeguards further limit losses that clearing members could be forced to incur.

- **The U.S. capital rules impose overlapping capital requirements on banking organizations' clearing activities.** The U.S. capital rules currently impose many

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[6] *See* Bank for International Settlements, Quarterly Review, International Banking and Financial Market Developments (Dec. 2025), *available at* https://www.bis.org/publ/qtrpdf/r_qt2512.htm (noting that "more than half of both outstanding OTC [interest rate] derivatives and credit derivatives are centrally cleared.").

[7] *See* 17 C.F.R. § 39.13(g)(2). Clearing members also often have a contractual right to call additional initial margin.

overlapping layers of capital requirements relating to derivatives clearing activities. These requirements include risk-based capital requirements for counterparty credit risk requirements, currently in the form of the standardized approach to counterparty credit risk ("SA-CCR") for large banks, and for CCP default fund contributions; leverage capital requirements for counterparty credit risk and the on-balance sheet portion of margin; G-SIB Surcharge capital requirements, which capture certain derivatives clearing activities within multiple categories; and stress capital buffer requirements that result from the treatment of derivatives clearing activities within stress test scenarios. Due to these overlapping and significant capital requirements, large banking organizations maintain substantial capital levels to support their clearing businesses. These levels of capitalization are already outsized to the modest risks that derivatives clearing activity poses to clearing members.

- **Disproportionately high capital requirements can cause banking organizations to reduce their clearing activity, which would increase systemic risk.** Excessively high capital requirements for clearing can cause several negative consequences in the market. First, if clearing businesses within banks are unable to meet return on equity targets, they may raise prices beyond the point where clients will find it economical to use cleared derivatives to hedge their risks. Clients may respond by going unhedged, which could increase risk in the financial system. And to the extent that clients pay higher prices and do hedge, they will have fewer resources available to invest in their businesses, and/or will pass the costs to their own clients and consumers. Second, banks could become disincentivized from offering clearing services altogether, except possibly as a limited accommodation to clients of other business lines. A reduction in the number of firms willing to serve as clearing members – and to increase their volume of clearing activity, if needed – could increase systemic risk. Porting depends on the presence of a number of clearing members with capacity and willingness to take on additional clients from a failing clearing member in a rapid manner.

With these principles in mind, the remainder of our letter offers targeted feedback on the Proposal's application to derivatives clearing and cleared derivatives trading activities.

II. The Final Rule Should Omit Derivatives That Are Cleared Transactions from the Cross-Jurisdictional Activity Indicator, Similar to the Proposed Instructions' Treatment of Exposures Arising from Client Clearing of Derivatives

As discussed in the comment letters of other trade associations, FIA members support the exclusion of all derivatives exposures from the Cross-Jurisdictional Activity indicator, or at least the calculation of the value of any in-scope derivatives net of cash collateral, consistent with U.S. GAAP and FFIEC 009 reporting.

If the final rule does not omit all derivatives from this indicator, it should at least omit derivatives exposures that are cleared transactions, just as the proposed FR Y-15 instructions

would omit exposures arising from client clearing of derivatives.[8] The preamble to the Proposal justifies the addition of derivatives exposures to the Cross-Jurisdictional Activity indicator by stating that such exposures can increase barriers to resolvability of a banking organization, and that the Federal Reserve seeks to prevent banking organizations from using derivatives to structure their exposures to reduce the value of systemic indicators without reducing the underlying risks.[9] Such concerns simply do not apply to cleared transactions. First, with regard to resolvability, central clearing vastly reduces barriers to resolving a banking organization for several reasons, including that central clearing serves to standardize legal documentation, risk management practices, and reporting of derivatives transactions, and thus reduces barriers to resolution that could arise from more fragmented and bespoke market practices. The Proposal points to the failure of Lehman Brothers during the 2007-09 financial crisis as an example of how cross-border derivatives can increase the effect of a banking organization's failure. However, Lehman's failure occurred prior to the implementation of significant regulatory and market reforms, including clearing mandates and resolution stay protocols, that have drastically reduced the systemic footprint of cross-border derivatives transactions since that time. Second, with respect to the Federal Reserve's concerns over potential capital arbitrage, central clearing reduces the underlying risks of a derivatives transaction by replacing the banking organization's exposure to an end user or other counterparty with an exposure to a well-regulated CCP, and the capital rules rightfully reflect this reduction in risk throughout the regulatory capital framework.

For these same reasons, if the final rule does not exclude cleared transactions from the Cross-Jurisdictional Indicator entirely, it should at least provide for exposures from such transactions to be calculated net of cash collateral, consistent with U.S. GAAP and FFIEC 009 reporting.

III. The Federal Reserve Should Finalize, as Proposed, Revisions to the FR Y-15 Reporting Instructions That Omit the 1.4 Alpha Factor From SA-CCR Based Calculations of Derivatives Exposures Under the Interconnectedness Indicator

The Proposal would revise the FR Y-15 reporting instructions so that banking organizations report derivatives exposures for purposes of the Interconnectedness indicator using SA-CCR. We understand these revisions to have the result that a banking organization would not apply the alpha factor of 1.4 for purposes of these calculations, and support the revisions on that understanding.

The alpha factor of 1.4 was originally designed as a layer of conservativism to address model risk when allowing banks to use internal models to calculate their exposures in the

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[8] According to the draft revisions to the FR Y-15 instructions, line items on Schedule E (reporting Cross-Jurisdictional Activity) should be reported in a manner consistent with FFIEC 009 reports. Form FFIEC 009, in turn, is only used to report on-balance sheet assets and liabilities. We therefore understand the instructions to omit most exposures arising from client clearing, which are generally off the clearing member's balance sheet. This omission is consistent with the Federal Reserve's stated reasons for proposing to add other derivatives exposures to the Cross-Jurisdictional Activity indicator, which are discussed immediately below.

[9] 91 Fed. Reg. at 14,927.

internal models methodology (IMM). This consideration has little relevance to the G-SIB Surcharge, which is a standardized measurement. Later, the agencies included the alpha factor in SA-CCR so that "exposure amounts produced under SA-CCR generally would not be lower than those under IMM."[10] This consideration has no relevance to the G-SIB Surcharge, which does not use a "dual stack" of a standardized approach and an internal models-based approach. It is particularly inapposite in the context of the Interconnectedness indicator, which is designed to measure a banking organization's degree of interconnectedness with other financial institutions. Applying the alpha factor to the Interconnectedness indicator would overstate the degree of a banking organization's exposures to other financial institutions.

IV. The Final Rule Should Confirm That a Separate Election is Needed to Apply Cross-Product Netting Arrangements to Relevant Indicators of the G-SIB Surcharge

Separately from the Proposal, the federal banking agencies have proposed to revise SA-CCR to recognize certain cross-product netting arrangements in the calculation of certain derivatives exposures. The relevant indicators of the G-SIB Surcharge that count derivatives exposures should reflect qualifying cross-product netting arrangements for purposes of calculating derivatives exposures that are eligible for cross-product netting under SA-CCR only if the reporting G-SIB separately elects to apply cross-product netting in the context of those G-SIB Surcharge indicators. The proposed cross-product netting framework is designed in the context of risk-weighted assets, and could lead to the reporting of higher, not lower, exposure amounts when calculated for purposes of the G-SIB Surcharge, including in the Size and Interconnectedness indicators. Such an increase in reported exposure would be inconsistent with the real-world risk-reducing function of cross-product netting arrangements and thus at odds with the underlying rationale for the agencies to have proposed a framework for cross-product netting in SA-CCR.[11]

V. Conclusion

FIA commends the Federal Reserve for the substantial improvements reflected in this iteration of capital reform. The limited recommendations set forth above are intended to confirm our members' understanding of the revisions to the G-SIB Surcharge in a manner that enhances risk sensitivity and internal consistency, while further supporting central clearing and sound risk management. We respectfully encourage the Federal Reserve to incorporate these recommendations as it works to finalize the Proposal.

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[10] 85 Fed. Reg. 4,362, 4,371 (Jan. 24, 2020).

[11] Similarly, in our comment letter on the Basel III Endgame proposal, we recommend that any election to use cross-product netting for purposes of risk-weighted assets should not automatically apply to calculations of exposure for purposes of the Supplementary Leverage Ratio.

We stand ready to engage constructively with the Federal Reserve on the matters discussed in this letter. If you have any questions, please contact Jacqueline Mesa, Chief Operating Officer and Senior Vice President of Global Policy at FIA, at 202-466-5460.

Respectfully Submitted,

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