**Regulations Q and YY, Docket Nos. R-1523 and R-1538**

On September 23, 2016, Board members received the following comments from the Managed Funds Association (MFA) on the proposed rules for (1) total loss-absorbing capacity, long-term debt, and clean holding company requirements and (2) qualified financial contracts.

MFA wishes to raise concerns about two proposals that we believe would not reduce systemic risk and that would impair the rights of hedge funds and their investors. First, on October 30, 2015, the Board issued a notice of proposed rulemaking on the "Total Loss-Absorbing Capacity, Long-Term Debt, and Clean Holding Company Requirements for Systemically Important U.S. Bank Holding Companies and Intermediate Holding Companies of Systemically Important Foreign Banking Organizations; Regulatory Capital Deduction for Investments in Certain Unsecured Debt of Systemically Important U.S. Bank Holding Companies" (TLAC Proposal). In those rules, the Board proposed to prohibit systemically important U.S. bank holding companies and the intermediate holding companies of systemically important foreign banking organizations from guaranteeing a liability of an affiliate if such liability permits the exercise of a default right that is related, directly or indirectly, to that entity becoming subject to a resolution or insolvency proceeding (other than under the Orderly Liquidation Authority).

Separately, on May 3, 2015, the Board issued a notice of proposed rulemaking on "Restrictions on Qualified Financial Contracts of Systemically Important U.S. Banking Organizations and the U.S. Operations of Systemically Important Foreign Banking Organizations" (Stay Proposal). These proposed rules would generally prohibit certain globally systemically important banking organizations (GSIB) from being party to any qualified financial contract that permits the exercise of any default right related, directly or indirectly, to any GSIB or its affiliates becoming subject to a receivership, insolvency, liquidation, resolution, or similar proceeding.

Both of these rulemakings relate to a broader initiative by the Board and other members of the Financial Stability Board (FSB) to alter end-user's exercise of their default rights during certain resolution and insolvency proceedings. MFA has consistently expressed our objections to this initiative and the related rules and regulations promulgated in the various FSB member jurisdictions. In September 2015, MFA published a white paper expressing our concerns, which we provided to the Board. In addition, MFA submitted a letter to the Board on the TLAC Proposal on February 19, 2016, and submitted comments on the Stay Proposal on August 5, 2016.

As noted in our letters, MFA believes that default rights are critically important to end-users when facing a troubled counterparty and serve important public policy goals of protecting investors and the stability of the financial markets. Thus, we are concerned that depriving end-users of these rights would exacerbate financial contagion, such as the "run on the bank" problem by encouraging end-users to seek to migrate business away from a large financial institution as soon as they have any concerns about its stability. We are also very troubled by the Board's proposed restrictions on certain end-user default rights during U.S. bankruptcy proceedings, which we believe is inconsistent with Congressional intent and is a substantial constraint on a key risk mitigation tool that end-users need to protect themselves and their investors and/or beneficiaries.