Global Foreign Exchange Division
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TO:

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
regs.comments@federalreserve.gov
Docket No. R–1629; RIN 7100–AF 22

Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation (FDIC)
Attention: Comments/Legal ESS
comments@fdic.gov
RIN 3064–AE80

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency (OCC)
regs.comments@occ.treas.gov
Docket ID OCC–2018–0030

February 15, 2019

Re: Standardized Approach for Calculating the Exposure Amount of Derivative Contracts

Dear Sir/Madam,

The Global Foreign Exchange Division ("GFXD") of the Global Financial Markets Association appreciates the opportunity to provide comments to the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency (collectively the "Agencies") on their joint notice of proposed rulemaking on the "Standardized Approach for Calculating the Exposure Amount of Derivative Contracts" (the "Proposal").

The GFXD was formed in co-operation with the Association for Financial Markets in Europe (AFME), the Securities Industry and Financial Markets Association (SIFMA) and the Asia Securities Industry and Financial Markets Association (ASIFMA). Our members comprise 25[1] global foreign exchange (FX) market participants collectively representing around 80%[2] of the FX inter-dealer market. We and our members are committed to ensuring a robust, open and fair marketplace and welcome the opportunity for continued dialogue with global regulators.

The FX market is the world's largest financial market, and effective and efficient exchange of currencies underpins the global financial system. Sovereign entities, central banks and other government sponsored entities rely on the FX market to be well-functioning and liquid, and corporations and investors regularly participate in the market for important operational needs: to reduce risk by hedging currency exposures; to convert their returns from international investments into domestic currencies; and to make cross-border investments and raise funding outside home markets.

Many of the current legislative and regulatory reforms have had, and will continue to have, a significant impact upon the operation of the global FX market. The potential consequences of reforms on the FX market should therefore be carefully evaluated before they are implemented.

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We appreciate the Agencies taking the initiative to further improve the calculation methodology for exposure amounts of derivative contracts. We provide the following input in respect of the Proposal:

Question 8. Should SA–CCR include the alternative treatment for exchange rate derivative contracts in order to recognize the economic equivalence of chains of exchange rate transactions? What would be the benefit of including such an alternative treatment? Commenters providing information regarding an alternative treatment are encouraged to provide support for such treatment, together with information regarding any associated burden and complexity.

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[1] Bank of America Merrill Lynch, Bank of New York Mellon, Barclays, BNP Paribas, Citigroup, Crédit Agricole, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Lloyds Bank, Mizuho, Morgan Stanley, MUFG Bank, Natwest Markets, Nomura, Royal Bank of Canada, Scotiabank, Société Générale, Standard Chartered Bank, State Street, UBS, Wells Fargo and Westpac.

[2] According to Euromoney league tables.

We welcome the Agencies' alternative treatment that recognizes the economic equivalence of chains of exchange rate transactions. We note, however, that creating separate hedging sets for each foreign currency can lead to overstatement of exposure. As a result, netting by currency should only be introduced if the issues leading to this overstatement can be mitigated

In this regard, we support the comments made in the joint ISDA, SIFMA, ABA, BPI and FIA response to this Question 8 in their letter to you dated February 15, 2019, as well as the quantitative data presented in support of their response.

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We greatly appreciate the opportunity to share our views on the Proposal. Please do not hesitate to contact Victoria Cumings on +1 212 313 1141, email vcumings@gfma.org, should you wish to discuss the above.

Yours sincerely,

James Kemp
Managing Director
Global Foreign Exchange Division, GFMA