



January 4th, 2023

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E-218
Washington, DC 20219

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

Mr. James P. Sheesley
Assistant Executive Secretary
Attention: Comments/Legal OES (RIN 3064-AF29)
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Via Agency Website

Re: *Comment Letter on Proposed Rules: "Large Banking Organizations and Banking Organizations with Significant Trading Activity" (OCC Docket Number OCC-2023-0008 (RIN 1557-1557-AE78); Board Docket No. R-1813 (RIN 7100-AG64); FDIC RIN 3064-AF29); and "Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; System Risk Report (FR Y-15)" (Board Docket No. R-1814 (RIN 7100-AG65))*

Kaiser Aluminum Corporation ("Kaiser Aluminum" or the "Company") is pleased to respond to the requests for comments in connection with the notices of proposed rulemaking titled "Large Banking Organizations and Banking Organizations with Significant Trading Activity" (the "Basel III Endgame Proposal"); and "Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; System Risk Report (FR Y-15)" (the "GSIB Surcharge Proposal" and, together with the Basel III Endgame Proposal, the "Proposals").¹

¹ 88 Fed. Reg. 64028 (Sept. 18, 2023) (Basel III Endgame Proposal); 88 Fed. Reg. 60385 (Sept. 1, 2023) (GSIB Surcharge Proposal).



Kaiser Aluminum produces fabricated aluminum products. This includes offerings of sheets, plates, billets, redraw rods, wires, extrusion, forging, and tubing products. Given the Company's broad offerings, Kaiser Aluminum is able to service numerous industries globally, including: aerospace, high strength, general engineering, automotive, and custom industrial sectors. The Company's North American manufacturing facilities produce and ship more than 1.1 billion pounds of product annually. Headquartered in Franklin, Tennessee, the Company employs nearly 4,000 individuals across 15 locations in Washington, California, Arizona, Texas, Tennessee, Alabama, Indiana, Michigan, Ohio, Virginia, New Jersey, and Ontario.

Like other companies, Kaiser Aluminum uses derivatives to efficiently manage price risks and ensure consistency and stability in earnings forecasts. The Company also uses derivatives as a hedging strategy that allows Kaiser Aluminum to provide a service to its customers: to sell firm priced metal for future delivery. The benefits of derivatives hedging flow to the American consumer through more stable and lower costs of goods and services, greater investment in innovation and job creation, and broader market discipline and economic and financial stability.

We are a signatory to the comment letter submitted by the Coalition for Derivatives End-Users and share the concerns set forth in that letter. The Proposals fail to account adequately for their impacts on derivatives end-users and the broader U.S. economy. Notable regulators, including Federal Reserve Chair Jerome Powell, have raised concerns that the Proposals' increased capital requirements would reduce access to credit and even "exceed[] what is required by the Basel agreement, and exceed[] as well what we know of plans for implementation by other large jurisdictions." And he is not alone. Former CEO of the Federal Reserve Bank of New York, William C. Dudley, has said that "[R]ising costs will inevitably make banks less competitive relative to non-bank institutions such as private credit firms and alternative mortgage lenders. This should be cause for concern because the latter face much less regulatory oversight and often no capital requirements at all. In trying to strengthen banks, the US could end up with a much more fragile financial system."

The Proposals will result in two materially adverse impacts on derivatives end-users who are simply managing their business risks: (i) reduced capacity for end-users like Kaiser Aluminum to hedge commercial risks because the costs to hedge those risks will rise, likely significantly; and, (ii) substantial cost increases in providing firm price solutions to customers of derivatives end-users like Kaiser Aluminum. Derivatives hedging allows Kaiser Aluminum to provide firm pricing as a service to a broad range of customers in the Packaging, Aerospace, General Engineering, and Automotive industries. We expect increased derivatives hedging costs to be passed through the supply chain to the ultimate consumers of our products. Or, customers may decide that the cost is too high and instead face greater input cost volatility and price uncertainty in their businesses.



Specifically, Kaiser Aluminum is concerned with the following aspects of the Proposals:

Credit Valuation Adjustment (“CVA”). The Basel III Endgame Proposal requires that CVA capital be calculated for *all* parties involved in CVA-covered positions—with no exceptions. This adds to the current capital requirements and undermines existing regulatory relief and policy objectives. Thus, the CVA adjustment is problematic in two ways. First, it is likely to result in large banks reducing the hedging transactions they offer because of increased capital requirements. Second, it does not give commercial end-users a customized approach to derivative transactions. This undermines the relief provided to commercial end-users under the final SA-CCR rule and margin clearing exemptions.

In that connection, Kaiser Aluminum asks that the Federal Banking Agencies exempt derivative transactions with corporations, pension funds, insurance companies, and other commercial end-users (along with their associated hedges) from CVA risk capital requirements.

Non-Modellable Risk Factor (“NMRF”). The NMRF portion of the Basel III Endgame Proposal increases capital requirements for customized derivative hedging transactions, which are crucial for commercial end-users, like Kaiser Aluminum, to manage business risks. Kaiser Aluminum is asking the Federal Banking Agencies to waive any NMRF requirement for transactions with commercial end-users and their related hedges.

GSIB Surcharge Proposal. The GSIB Surcharge Proposal is set to significantly raise the capital requirements for the derivatives clearing businesses of large banking organizations. This, in turn, will create obstacles for end-users seeking access to cleared OTC derivatives services, increasing costs while limiting availability. This leads to end-users being forced to pay more money to continue hedging their risks. Given the importance of end-user hedging to economic stability in the United States and the global financial system at large, the impact of the GSIB proposal is worrisome. Moreover, elevating the cost of risk hedging for commercial end-users will increase the costs ultimately passed on to consumers. Kaiser Aluminum is urging the Federal Reserve to maintain the exclusion of OTC client cleared transactions from the complexity and interconnectedness indicators of the GSIB surcharge.

The preceding discussion, coupled with the concerns highlighted in the Coalition for Derivatives End-Users Letter, underscores the specific issues with the Proposals. Kaiser Aluminum believes that the Federal Banking Agencies must revise the Proposals in a more comprehensive way—one that addresses market risk and corporate exposure, holistically. The Company urges the Federal Banking Agencies to conduct an impact analysis that clearly lays out the broad implications of these Proposals.



As explained, the adoption of the Proposals would have detrimental effects on derivatives end-users, including Kaiser Aluminum. This is primarily due to the increased costs that large banks would pass on to end-users, leading to broad unintended consequences. The anticipated costs are substantial enough to prompt large, regulated banking organizations, end-users and their customers to significantly reduce or withdraw entirely from capital market activities altogether, concentrating derivatives activities in more opaque, concentrated markets and resulting in higher prices for consumers in the United States. These outcomes are not only expensive but also run counter to the fundamental purpose of the Proposals: ensuring financial stability.

Given Kaiser Aluminum's size, industry position, corporate structure, and hedging activities, the Company strongly urges the Federal Banking Agencies to reconsider and withdraw the Basel III Endgame Proposal and GSIB Surcharge Proposal. This request is made with the end-user concerns discussed above in mind.

Sincerely,

A handwritten signature in blue ink, appearing to read "Neal West", with a long horizontal flourish extending to the right.

Neal West

Kaiser Aluminum – Corporate

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