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Via Electronic Mail:

January 16, 2024

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

Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429
Attention: James P. Sheesley, Assistant Executive Secretary, Comments/Legal OES

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

Re: (1) Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity (Federal Reserve Docket No. R-1813, RIN 7100-AG64; FDIC RIN 3064-AF29; Docket ID OCC-2023-0008) and (2) Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15)

Ladies and Gentlemen:

Tradeweb Markets Inc. ("**Tradeweb**") appreciates this opportunity to provide the Board of Governors of the Federal Reserve System ("**Federal Reserve**"), the Federal Deposit Insurance Corporation ("**FDIC**") and the Office of the Comptroller of the Currency ("**OCC**" and together with the Federal Reserve and the FDIC, the "**Agencies**") with comments in response to the two above-captioned releases (the first, the "**Basel Endgame Proposal**", the second, the "**GSIB Surcharge Proposal**" and together, the "**Proposals**"). The Proposals would implement significant revisions to the regulatory capital requirements for large banking organizations and could meaningfully affect the liquidity, depth and overall functioning of a range of financial markets.

Tradeweb is a leading global operator of electronic marketplaces for rates, credit, equities and money markets. Founded in 1996, Tradeweb provides access to markets, data and

analytics, electronic trading, straight-through-processing and reporting for more than 40 products to clients in the institutional, wholesale and retail markets. Advanced technologies developed by Tradeweb enhance price discovery, order execution and trade workflows while allowing for greater scale and helping to reduce risks in client trading operations. Tradeweb has been a pioneer in developing electronic marketplaces for a variety of financial instruments, including U.S. Treasury securities, exchange-traded funds ("**ETFs**"), mortgage-backed securities ("**MBS**"), debt securities and a wide variety of derivatives.

Tradeweb is not itself a banking organization directly subject to the Agencies' regulatory capital rules, but many of our participants are. Tradeweb and our participants—including non-bank market participants—are concerned that significant increases in regulatory capital requirements for trading activities relative to the risks of those activities, specifically as proposed within the Fundamental Review of the Trading Book ("**FRTB**"), credit valuation adjustment ("**CVA**") and minimum haircuts for Securities Financing Transactions ("**SFTs**") rule sets, and implemented in such a manner that could have harmful effects on important financial markets, the U.S. economy and U.S. market participants. Tradeweb and our participants also have concerns that elements of the Proposals, in combination with aspects of the current U.S. regulatory capital framework, would further amplify capital requirements in the United States in comparison to other jurisdictions, particularly for banking organizations most active in trading and markets activities.

Tradeweb broadly supports regulatory capital rules that are appropriately calibrated to support market functioning and safety and soundness of the banking system and we note that U.S. financial markets have continued to function through prior regulatory reform initiatives increasing bank capital requirements. However, excessive capital requirements could have negative effects on U.S. and global financial markets, all types of market participants and the broader economy. The Agencies have acknowledged that the Basel Endgame Proposal in particular could significantly increase capital requirements associated with trading activity and that these requirements could "more than doubl[e] for some firms."[1] Well-functioning financial markets require a diverse set of participants to ensure deep and liquid markets, but meaningfully higher capital requirements connected to trading activity could reduce or eliminate certain banks' role as liquidity providers altogether, with the possibility of lower liquidity overall and greater dependence on less highly capitalized market participants.

This concern must be considered in the broader context of post-financial crisis reforms (including changes to regulatory capital and leverage requirements) that, according to some policy makers and other observers, have already significantly reduced dealer bank inventory and capacity to provide liquidity across markets.[2] In that regard, the Agencies acknowledge "the overall effect of higher capital requirements on market making activity and

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[1] Staff Memorandum to the Board of Governors (July 18, 2023), *available at* https://www.federalreserve.gov/aboutthefed/boardmeetings/gsib-memo-20230727.pdf.

[2] *E.g.*, Darrell Duffie, *Resilience redux in the US Treasury market* (Sept. 2, 2023), *available at* https://www.kansascityfed.org/Jackson%20Hole/documents/9780/JH-2023BW.pdf ("The trend of declining relative market capacity continues because of large US deficits and regulatory capital constraints that keep banks safe but reduce the flexibility of their balance sheets.").

market liquidity remains a research question needing further study."[3] Tradeweb encourages the Agencies to conduct these analyses prior to promulgating additional rules that could inhibit bank participation in wholesale markets that are essential to the flow of credit to the U.S. government and non-financial companies.

The remainder of this letter highlights the aspects of the Proposals that raise these considerations with respect to four financial markets in which Tradeweb operates and that are critical to the U.S. financial system and economy.

I. U.S. Treasury Securities Markets

Liquid U.S. Treasury securities markets—both the cash markets and the repurchase and reverse repurchase ("**repo**") markets—that include a diverse set of market participants are essential to financial markets and the overall economy.[4] Regulators, including the Agencies, have also recognized deep and liquid U.S. Treasury securities markets as a core policy objective given the centrality of these markets to, among other things, financing the U.S. government, implementing monetary policy[5] and setting prices for a range of financial instruments.[6] The availability of bank dealers to provide liquidity is critical in all market conditions, though their importance—and the consequences of illiquidity—are particularly acute during periods of market volatility. The market disruptions that accompanied the beginning of the COVID-19 crisis in March 2020 illustrate this issue. Regulators and academics have acknowledged[7] that the liquidity pressures in these markets at that time may have been

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3 88 Fed. Reg. at 64,170-71.

4 We have addressed this topic in other comment letters. Tradeweb Comment Letter to *Proposed Rules Regarding Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule With Respect to U.S. Treasury Securities*, Release No. 34-95763; File No. S7- 23-22; 87 Fed. Reg. 64610 (Dec. 27, 2022), *available at* https://www.sec.gov/comments/s7-23-22/s72322-20153736-321406.pdf.

5 Many of the primary dealers that are trading counterparties to the Federal Reserve Bank of New York are banking organizations subject to regulatory capital requirements. *See* Federal Reserve Bank of New York, *Primary Dealers*, *available at* https://www.newyorkfed.org/markets/primarydealers#:~:text=Primary%20dealers%20are%20trading%20counterparties,auctions%20at%20reasonably%20competitive%20prices.

6 *E.g.,* Inter-Agency Working Group for Treasury Market Surveillance, *Enhancing the Resilience of the U.S. Treasury Market: 2023 Staff Progress Report* (Nov. 6, 2023), *available at* https://home.treasury.gov/system/files/136/20231106_IAWG_report.pdf ("The Treasury market remains the deepest and most liquid market in the world and a central component of the financial system."); Michael S. Barr, *Speech at the 2023 U.S. Treasury Market Conference* (Nov. 16, 2023), *available at* https://www.federalreserve.gov/newsevents/speech/barr20231116a.htm#:~:text=The%20Importance%20of%20the%20Treasury%20Market&text=Second%2C%20the%20market%20for%20Treasury,policy%20for%20the%20Federal%20Reserve.

7 *E.g.*, Matthew Wells, *Averting a Treasury Market Crisis* (First Quarter 2023), *available at* https://www.richmondfed.org/publications/research/econ_focus/2023/q1_feature2 ("Balance sheet space is dictated in part by the Supplementary Leverage Ratio (SLR) requirements included in the post-financial-crisis-era reforms that were intended to make the financial system safer . . . however, 'the key constraint of bank balance sheets in intermediating Treasury markets is the supplementary leverage ratio.'"); Don Kohn, *Building a more stable financial system: Unfinished business* (Aug. 27, 2021), *available at* https://www.brookings.edu/wp-content/uploads/2021/08/Don-Kohn_Jackson-Hole-2021_revised.pdf

exacerbated by bank regulatory capital and leverage requirements, with widespread consequences for financial markets and the broader economy.[8]

Tradeweb is concerned that the Proposals, if not calibrated appropriately, could have harmful effects on the broad functioning of U.S. Treasury securities markets, including with respect to market liquidity and volatility, and availability of bank dealer intermediation capacity. We are particularly concerned that the Proposals could hamper the ability of banking organizations to act as market makers by increasing banking organizations' cost of holding inventory and maintaining capacity to facilitate client transactions. If the costs associated with market making increase, banking organizations would have incentives to reduce their activities or pass the higher costs to other market participants. Ultimately, the loss of market making capacity in U.S. Treasury securities markets could result in less liquidity and hamper the functioning of an essential market. For this reason—and consistent with the Agencies' own view that the effect of the Proposals on market making activity have not been fully studied—the Agencies should carefully consider the potential effects of the Proposals on market making activity in U.S. Treasury markets.[9]

Furthermore, the potential effects of the Proposals on the U.S. Treasury securities markets should be considered in the context of other regulatory reforms. Notably, the Securities and Exchange Commission ("**SEC**") recently finalized a rule that will significantly expand mandatory central clearing in Treasury cash and repo markets ("**Treasury Clearing Mandate**").[10] In that rulemaking, the SEC acknowledges that increased central clearing "can have procyclical effects in times of market stress due to the margin requirements of clearing

("Dysfunction in the Treasury market has the potential for considerable spillovers into the real economy . . . the Supplementary Leverage Ratio along with some aspects of the GSIB add-ons to risk-based capital requirements were frequently cited as having the effect of limiting the willingness of dealers to stabilize the market."); Darrell Duffie, *Dealer capacity and US Treasury market functionality* (Oct. 2023), *available at* https://www.bis.org/publ/work1138.pdf ("We show a significant loss in US Treasury market functionality when intensive use of dealer balance sheets is needed to intermediate bond markets, as in March 2020 . . . . This is consistent with the existence of occasionally binding constraints on the intermediation capacity of bond markets.").

8 Regulators recognized these concerns at the time and took steps to ease regulatory constraints on bank intermediation in these markets. *E.g.*, Federal Reserve, *Temporary Exclusion of U.S. Treasury Securities and Deposits at Federal Reserve Banks From the Supplementary Leverage Ratio*, 85 Fed. Reg. 20578 (Apr. 14, 2020) (revising the calculation of total leverage exposure, the denominator of the supplementary leverage ratio in the Federal Reserve's capital rule, to exclude temporarily on-balance sheet amounts of U.S. Treasury securities and deposits at Federal Reserve Banks).

9 The Agencies have acknowledged that "the overall effect of higher capital requirements on market making activity and market liquidity remains a research question needing further study." 88 Fed. Reg. at 64,170-71.

10 SEC, *Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule With Respect to U.S. Treasury Securities* (Dec. 13, 2023), *available at* https://www.sec.gov/files/rules/final/2023/34-99149.pdf.

agencies, further reducing liquidity when it is most needed."[11] The Agencies should be careful to avoid imposing regulatory capital requirements that could exacerbate these liquidity shortages. Although the Basel Endgame Proposal broadly exempts cleared transactions (including U.S. Treasury repos) from minimum haircut floor requirements, other aspects of the Proposals could increase the costs of clearing, as noted below.[12] Given the importance of the U.S. Treasury securities markets, we urge the Agencies to consider carefully the effects of the Proposals on cash and repo Treasury markets to maintain the broad functioning of these critical markets.

II. Cleared Derivatives Markets

Counterparty credit risk mitigation through central clearing has been broadly endorsed by global regulators and the use of central clearing continues to increase in response both to market trends and regulatory mandates.[13] Nonetheless, regulators have noted recent decreases in the number of firms providing clearing services and the potential related effects on cleared markets, particularly in times of market stress.[14]

Tradeweb is concerned that increases in regulatory capital requirements for cleared transactions could further inhibit bank participation in these markets and increase concentration. Accordingly, the Agencies should carefully consider the potential effects of the Proposals on bank participation in cleared derivatives markets in the context of the broader regulatory goals of expanding central clearing, including with respect to the following:

- Under the GSIB Surcharge Proposal, banks' exposures that arise in connection with client-cleared derivatives positions would be added to the complexity and interconnectedness systemic indicators, which could result in higher regulatory capital surcharges for GSIBs and increased regulatory requirements under the Federal Reserve's tailoring framework as a result of facilitating access to clearing, including for transactions mandated for central clearing.

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[11] *Id.* at 22.

[12] The Agencies specifically request comment on whether all counterparties—including central counterparties—should be within the scope of minimum haircut floors. 88 Fed. Reg. at 64,064.

[13] *E.g.*, Commodity Futures Trading Commission ("**CFTC**"), *Clearing Requirement Determination Under Section 2(h) of the Commodity Exchange Act for Interest Rate Swaps To Account for the Transition From LIBOR and Other IBORs to Alternative Reference Rates*, 87 Fed. Reg. 52182 (Aug. 24, 2022), *available at* https://www.cftc.gov/sites/default/files/2022/08/2022-17736a.pdf.

[14] *E.g.*, Statement of Support of Chairman Rostin Behnam, Notice of Proposed Rulemaking for Investment of Customer Funds by Futures Commission Merchants and Derivatives Clearing Organizations (Nov. 3, 2023), *available at* https://www.cftc.gov/PressRoom/SpeechesTestimony/behnamstatement110323 ("FCMs and DCOs operate in tandem as the backbone of our cleared markets . . . the number of FCMs that offer customer clearing has significantly decreased in the past decade.").

- The Basel Endgame Proposal's operational risk capital requirement incorporates fees and commissions from providing clearing services, meaning that the operational risk charge would, all else equal, increase as a bank facilitates more cleared transactions.[15]

- Under the credit valuation adjustment ("**CVA**") risk capital requirements in the Basel Endgame Proposal, client-facing exposures of banks in respect of cleared derivatives would be subject to CVA capital requirements even though there is no CVA recognized for these exposures under U.S. GAAP and notwithstanding that other jurisdictions, including the European Union and the United Kingdom, have excluded (or proposed to exclude) these exposures from CVA risk capital requirements.[16]

III. Uncleared Derivatives Markets

Since the financial crisis, global regulators, including the Agencies,[17] have implemented reforms that broadly enhance the safety and soundness of bilateral uncleared derivatives markets. Regulators designed these actions to be consistent with the view that derivatives markets play an important role in mitigating a range of commercial risks and are widely used by a number of market participants, including non-bank commercial end-users.[18]

Therefore, the Agencies should carefully consider the potential effects of the Proposals on uncleared derivatives markets and the ability of end users to transact in these markets. For example, the Basel Endgame Proposal would impose higher CVA capital requirements for unmargined derivatives, including derivatives entered into with end users that are exempt from margin requirements by statute.

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15 In addition to cleared derivatives, these effects also would apply to cleared repo transactions.

16 More broadly with respect to CVA risk capital requirements, a banking organization that does not receive supervisory approval to apply the standardized approach for CVA risk (which the Agencies acknowledge is "computationally intensive for large netting sets") would be required to apply a basic approach that broadly limits the recognition of CVA hedges. 88 Fed. Reg. at 64,154.

17 *E.g.*, Federal Reserve, FDIC and OCC, *Margin and Capital Requirements for Covered Swap Entities*, 85 Fed. Reg. 39754 (July 1, 2020), *available at* https://www.govinfo.gov/content/pkg/FR-2020-07-01/pdf/2020-14097.pdf.

18 The Agencies have recognized the importance of derivatives hedging to commercial end-users and have, in other contexts, sought to facilitate such firms' use of derivatives in a safe and sound manner. *E.g.*, Federal Reserve, FDIC and OCC, *Standardized Approach for Calculating the Exposure Amount of Derivative Contracts* (Nov. 19, 2019), *available at* https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20191119c1.pdf ("Parties generally use derivative contracts to mitigate risk . . . . the [A]gencies recognize that derivative exposures to commercial end-user counterparties may be less likely to present [certain] types of risk . . . [and] note . . . congressional and other regulatory actions designed to mitigate the effect that post-crisis derivatives market reforms have on the ability of these parties to enter into derivative contracts to manage commercial risks. The agencies intend to monitor . . . whether there are opportunities to improve the ability of commercial end-users to enter into derivative contracts with banking organizations in a manner that continues to support the safety and soundness of banking organizations and U.S. financial stability.").

IV. Funding and Cash Markets

Funding markets—including securities borrowing and lending markets, as well as U.S. Treasury securities repo markets—are essential in supporting the efficient flow of credit to firms seeking financing to fund their operations and enhancing the liquidity and functioning of financial markets.[19] The cash securities markets are a foundational aspect of the U.S. capital markets, permitting companies to fund their growth and workers to save for retirement. Accordingly, the Agencies should evaluate how capital requirements could affect bank intermediation in funding and cash markets and the related downstream effects.

For example, if not appropriately calibrated, the minimum haircut floors could affect the ability of banks to engage in funding transactions and provide liquidity in cash and funding markets. In this regard, we note in particular that, although the Basel Endgame Proposal would broadly exempt funding transactions collateralized by Treasuries (*i.e.*, repos) from requirements to satisfy minimum haircut floors, the Agencies seek comment on whether that is the correct approach.[20] Application of minimum haircut floors to these types of transactions could lead banking organizations to conclude that transacting in these markets is uneconomical, with further downstream effects on the U.S. Treasury securities markets, including with respect to market functionality and resiliency, particularly in times of market stress. In this regard, it is noteworthy that other major jurisdictions, including the European Union and the United Kingdom, have not proposed to implement the minimum haircut floor framework at all. It is particularly important to calibrate capital requirements for U.S. Treasury securities appropriately given that, under the existing U.S. capital framework, the supplementary leverage ratio already may provide incentives for banking organizations to engage in trading businesses in other fixed income instruments that are more profitable than trading in U.S. Treasuries.

Additionally, the overall calibration of capital requirements for equities, debt securities and mutual funds and ETFs should be carefully evaluated—including the interaction of the Proposals with the stress capital buffer—to avoid unduly inhibiting liquidity in these important markets.

V. ETF Markets

We are particularly concerned that aspects of the Proposals could reduce the participation of banking organizations in trading activities involving ETFs, an important and growing market for institutional and retail investors. For example:

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[19] Regulators have also recognized the importance of funding markets for other purposes, including in allowing pension funds to generate income. *E.g.*, SEC, *Reporting of Securities Loans* (Oct. 2023), *available at* https://www.sec.gov/files/rules/final/2023/34-98737.pdf.

[20] 88 Fed. Reg. at 64,064.

- Excessive calibration of capital requirements for equity investments in ETFs (including for seed investments) could reduce bank participation in ETF markets in a manner that decreases liquidity and increases costs for market participants.

- Additionally, the proposed inclusion of ETFs within the definition of a "financial institution" for purposes of the interconnectedness indicators (and, in contrast to the Basel framework, not excluding bond ETFs and swaps on bond ETFs) could also decrease bank participation in these important markets.[21]

VI. MBS Markets

We are also concerned about the potential effects of the Basel Endgame Proposal on MBS markets. In particular, the Agencies should clarify that Fannie Mae and Freddie Mac securities in the to-be-announced ("**TBA**") market and deliverable pools that are eligible under the Uniform Mortgage-Backed Securities ("**UMBS**") initiative are treated as the same obligor for purposes of the market risk capital requirements given that TBAs and UMBS-eligible deliverable pools are broadly treated as interchangeable.[22] Increased capital requirements for these exposures could reduce the depth and liquidity of the residential MBS markets, with potential downstream effects on the costs for residential mortgages and the U.S. housing market.

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Once again, we appreciate the opportunity to share our views on these important issues and would be pleased to discuss in further detail as and when appropriate. If you have any questions, please do not hesitate to contact me.

Respectfully submitted,

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[21] 88 Fed. Reg. at 60,391-92; Basel Committee on Banking Supervision, *Instructions for the end-2022 G-SIB assessment exercise* (Jan. 2023), at 13.

[22] 88 Fed. Reg. at 64,123, fn. 355.