



CHICAGO TRADING COMPANY\*



Maven



Optiver 



**March 15, 2024**

Via Electronic Submission

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

James P. Sheesley  
Assistant Executive Secretary  
Federal Deposit Insurance Corporation  
550 17th St. NW  
Washington, DC 20429

Chief Counsel's Office  
Office of the Comptroller of the Currency  
400 7th St. SW  
Washington, DC 20219

**Re: Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity (OCC Docket ID OCC-2023-0008; Federal Reserve Docket No. R-1813, RIN 7100-AG64; FDIC RIN 3064-AF29)**

Dear Sir/Madam:

We, All Options USA LLC., Belvedere Trading LLC, Cboe Global Markets, Inc., Chicago Trading Company LLC, Nasdaq, Inc., New York Stock Exchange, Optiver Holding B.V., and Simplex Investments, LLC are writing to express our strong concerns regarding the notice of proposed rulemaking (the "Endgame Proposal" or "Proposal") issued by U.S. prudential bank regulators

(collectively, the “Agencies”).<sup>1</sup> The Proposal is not only expected to result in vastly increased capital requirements for the largest banking organizations (LBOs), but a concerning portion of this increase is expected to arise from LBO exposures resulting from client clearing. LBOs provide essential access to central clearing. Unless the Agencies commit to fine-tuning the proposed prudential framework by more fully recognizing offsetting risk exposures and promoting opportunities for capital efficiencies for LBO exposures resulting from client clearing, we are concerned that exchange-traded, centrally-cleared derivatives markets may see reduced liquidity and resiliency in the future. This harms investors and U.S. capital markets.

Role of Market-Makers: Professional liquidity providers, such as options market-makers, play a pivotal role in exchange-traded derivatives markets. By standing ready to buy and sell financial instruments, market-makers ensure investors can enter and exit the market as needed, providing liquidity and highly efficient access to one of the largest risk management marketplaces in the world. Market-makers play an especially important role in options markets where they are actively providing two-way quotes (buy and sell) in hundreds of thousands of unique options series with different strike prices and expirations. Market-makers help drive price discovery, and the liquidity they provide has helped build a foundation for new innovations, such as options-based funds that can give investors access to simplified downside protection.

The Challenge: In fulfilling their important role, many market-makers receive client clearing services through bank-affiliated clearing firms. As the Basel Committee on Banking Supervision, Financial Stability Board, the Committee on Payments and Market Infrastructures, and the International Organization of Securities Commissions have found, the capital reforms since the 2008 financial crisis have negatively impacted the ability of firms to access client clearing services – difficulty establishing accounts with client clearing service providers; limitations placed on derivatives activity; and some firms off-boarded entirely by their clearing service providers.<sup>2</sup> This Proposal represents a significant risk that client clearing will again be negatively impacted. This directly contradicts the policy objectives of the Basel reforms, which were, in part, intended to promote central clearing of standardized derivative contracts.<sup>3</sup>

Moreover, it is well understood that over the last decade the number of clearing firms supporting the trading ecosystem has steadily decreased. The imposition of higher capital requirements for LBO’s client clearing exposures will only serve to further constrain balance sheets and impair clearing firms’ ability to support client clearing. It is imperative that regulators ensure market participants can access central clearing in a cost-efficient and operationally efficient manner. Several components of the Proposal would limit LBO balance sheet capacity for clearing by requiring they hold more capital than the actual risk posed by the positions they clear.

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<sup>1</sup> See Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Federal Reserve Board), and the Federal Deposit Insurance Corporation (FDIC), Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity, 88 FR 64028 (September 18, 2023), available at, <https://www.federalregister.gov/documents/2023/09/18/2023-19200/regulatory-capital-rule-large-banking-organizations-and-banking-organizations-with-significant> BCBS, CPMI, FSB and IOSCO, Incentives to centrally clear over-the-counter (OTC) derivatives: A postimplementation evaluation of the effects of the G20 financial regulatory reforms, August 2018, available at, [www.fsb.org/wp-content/uploads/P070818.pdf](http://www.fsb.org/wp-content/uploads/P070818.pdf). BCBS, Consultative Document, Leverage Ratio Treatment of Client Cleared Derivatives, October 2018, available at, <https://www.bis.org/bcbs/publ/d451.htm>.

We strongly urge regulators to consider the concerns raised by the industry,<sup>4</sup> and implement the following recommendations, among others:

- Permit the exclusion of the derivatives exposures arising from client clearing from the credit valuation adjustment (“CVA”) capital charge.
- Permit the netting of economically offsetting client exposures to allow settled-to-market contracts (futures) to net against collateralized-to-market contracts (equity options).
- Permit the decomposition of index options and options on ETFs.

We understand the overarching concerns of the Agencies to limit the systemic impact of LBO exposures; however, we strongly encourage the Agencies to adopt these recommendations. They are targeted in nature, promote client clearing, and support one the greatest tools we have available to reduce systemic risk – central clearing.

Sincerely,

All Options USA LLC  
Belvedere Trading LLC  
BlackEdge Capital LLC  
Cboe Global Markets, Inc.  
Chicago Trading Company LLC  
Maven Global Markets Trading LLP  
Nasdaq, Inc.  
New York Stock Exchange  
Old Mission Capital LLC  
Optiver US LLC  
Simplex Investments, LLC

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<sup>4</sup> See Cboe Global Markets Response, available at, [https://cdn.cboe.com/resources/government\\_relations/Cboe-Response-1-16-2024.pdf](https://cdn.cboe.com/resources/government_relations/Cboe-Response-1-16-2024.pdf); FIA comment letter Re: Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity (OCC Docket ID OCC–2023–0008; Federal Reserve Docket No. R–1813, RIN 7100–AG64; FDIC RIN 3064–AF29) (January 2024), available at: <https://www.fia.org/sites/default/files/2024-01/FIA%20-%202023%20Basel%20Endgame%20Comment%20Letter.pdf>; also see ISDA comment letter Re: Regulatory capital rule: Amendments applicable to large banking organizations and to banking organizations with significant trading activity (January 2024), available at: <https://www.isda.org/a/1EgE/ISDA-and-SIFMA-Response-to-US-Basel-III-NPR.pdf>; also see Sifma comment letter Re: Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity (RINs 1557-AE78, 7100-AG64, 3064-AF29) and Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies (RIN 7100-AG65) (January 2024), available at: <https://www.sifma.org/wp-content/uploads/2024/01/SIFMA-AMG-Comment-Letter-on-Basel-III-Endgame-and-GSIB-Surcharge-Proposals-FINAL-1.pdf>