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Proposal and Comment Information

Title: GSIB-Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15), R-1889

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Submitter Information

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We support the proposal to include cross-jurisdictional derivative exposures within the Cross-Jurisdictional Activity (CJA) calculation rather than maintaining them as memorandum items. Incorporating these exposures into the primary metric provides a more comprehensive measure of a firm's global footprint and better captures the systemic implications of cross-border derivatives activity. However, we believe that a gross exposure approach may overstate systemic risk for centrally cleared or fully collateralized derivative portfolios, where counterparty credit risk is significantly mitigated through daily margining, legally enforceable netting agreements, and the posting of high-quality collateral. Accordingly, we recommend that the Federal Reserve consider recognizing eligible collateral and netting benefits in the measurement of cross-jurisdictional derivative exposures or alternatively supplement the gross exposure metric with a net-of-collateral measure. Such an approach would better align the reported exposure with the underlying economic risk while continuing to capture the scale and interconnectedness of cross-border derivatives activity.

This enhancement would improve risk sensitivity, reduce the potential for overstating systemic risk, and promote greater consistency with other regulatory frameworks that recognize collateral and netting arrangements in the measurement of derivative exposures.