

Meeting Between Staff of the Federal Reserve Board and Representatives of The Clearing House
November 7, 2016

Participants: Christopher Callanan, Sean Campbell, Lucy Chang, Anna Harrington, Brian Knestout, Ben McDonough, and Pam Nardolilli (Federal Reserve Board)

Jason Shafer (ABA); Ganesh Radhakrishnan (Bank of America); Grace Armstrong (Barclays); Brian Brooks, John Hardage (BB&T); Fawn Lipton, Jennifer Xi (BNY Mellon); Chan Casey, Sridhar Iyer (Citigroup); Peter Ryan (Credit Suisse); Michelle Hubertus (Deutsche Bank); Craig Bricker, Soohyun Lee (Goldman Sachs); John Cassidy (HSBC); Ann Battle (ISDA); Robin Doyle, Michael Overmyer (JPMorgan); Priya Bindra, Steven Simonte (Morgan Stanley); Joan DaPonte, Michael Tselnik (MUFG Union Bank); Dominic Labitzky (PNC); Gregory Dean, Sarah Follen (RBC); Carter McDowell (SIFMA); Matthew Browne, Sarah Flowers, Andrea Tokheim (Sullivan & Cromwell); Joseph Barry, Robert McKeon (State Street); Andrew Kales, Stephen Mariotti, Stacey Spevak, Nathan Young (TD Bank); Gregg Rozanksy (The Clearing House); Bryan Claire, Dan Meade (Wells Fargo)

Summary: Representatives of The Clearing House and its members met with staff of the Federal Reserve Board to discuss the proposed rule for single counterparty credit limits (“SCCL”) that the Board issued for public comment pursuant to section 165(e) of the Dodd-Frank Wall Street Reform and Consumer Protection Act as part of the Board’s Regulation YY (Docket No. R-1534, RIN 7100–AE 48).

The representatives of The Clearing House and its members raised the following issues regarding the proposed rule:

- The proposed definitions of “covered company” and “counterparty”;
- Aggregation of counterparties based on the control relationship and economic interdependence tests;
- The treatment of exposures to natural persons;
- Implementation, conformance, and cure periods;
- Application of “eligible protection provider” and maturity mismatch adjustment requirements to covered positions subject to the Board’s market risk rule;
- Valuation of certain derivatives positions;
- Application of the proposed look-through approach to securitization vehicles, investment funds, and other special purpose vehicles (collectively, “SPVs”), including possible exemptions for certain types of SPVs;
- Aggregation of third parties due to certain relationships with SPVs;

**Single Counterparty Credit Limits for Large
Banking Organizations – Industry Comments in
Response to the Notice of Proposed
Rulemaking**

November 7, 2016

Purpose and Use of the Presentation Deck

- Executive summary slides (slides 3 and 4 of this deck) are being provided to the Federal Reserve Board staff in connection with the November 7th meeting with the staff and may be made publicly available. Those slides highlight certain key recommendations set out in the Industry Comment Letter filed with the Federal Reserve Board (June 3, 2016).
- The participating banks and Associations (The Clearing House, The American Bankers Association, Financial Services Roundtable, The Securities Industry and Financial Markets Association, and ISDA) continue to support all of the recommendations set out in the Industry Comment Letter. Please refer to the complete Comment Letter for a more comprehensive discussion of the points addressed in this presentation deck.

Executive Summary – Recommendations

- The Associations support the Federal Reserve’s efforts to monitor and control interconnectedness of financial institutions.
- Our recommendations are designed to focus compliance efforts on material exposures and align exposure calculations more closely with existing methodologies.
- We recommend balancing risk-mitigation goals of the SCCL and compliance obligations with the following modifications to the scope of the covered company and counterparty definitions:
 - Base the “covered company” and “counterparty” definitions on financial reporting consolidation;
 - Apply a 5 percent *de minimis* threshold to both the Economic Interdependence and Control Relationship tests; and
 - Exclude natural persons from the SCCL framework.
- We recommend modifying exposure calculation methodologies by:
 - Eliminating the Eligible Protection Provider (“EPP”) and Maturity Mismatch Adjustments (“MMA”) requirements for trading book positions in recognition of the differences between the trading book and banking.
 - Permitting the application of trading book netting rules to equity exposures subject to the market risk capital rule.
 - Modifying the “look-through approach,” including by:
 - Applying the look-through to *investments* (and not all potential exposures); and
 - Excluding well-diversified funds, SPVs and securitizations from the requirement.
 - Eliminating (or refining) the requirement to identify third parties whose failure or distress would likely result in a loss in the value of a Large Covered Company’s investment or exposure to a securitization vehicle, investment fund or other SPV.
 - Permitting the use of supervisory approved methodologies for SFTs until such time as the “revised comprehensive approach” is adopted for SFTs.

Executive Summary – Recommendations (cont.)

- The final SCCL rule should also:
 - Align CCFs for measurement of off-balance sheet exposures with the risk-based capital rules;
 - Conform the Reproposal’s definition of “eligible collateral” to the definition of “financial collateral” in the risk-based capital rules; and
 - Not apply the SCCL separately to the combined U.S. operation of an FBO, but at a minimum eliminate the “cross-trigger” provision.
- The SCCL should take into account the GSIB surcharge framework (which reduces a GSIB’s probability of default and imposes different default probabilities across GSIBs) as well as other regulatory reforms designed to address systemic risks arising from counterparty exposures.

- Valuation of securities financing transactions and off-balance sheet exposures;
- The proposed definition of “eligible collateral”; and
- The application of SCCL to the U.S. operations of a foreign banking organization, including the combined U.S. operations and any U.S. intermediate holding company.

Materials related to the issues discussed in the meeting are attached.