Meeting Between Staff of the Federal Reserve Board and Representatives of Futures Industry Association
August 20, 2026

Participants: David Cook, David Lynch, Nadya Zeltser, Diana Iercosan, Cecily Boggs, and Vikram Ramnarain (Federal Reserve Board)

Jaqueline Mesa, Darin Guries, and Madison Ponikowski (Futures Industry Association); Harry Yang (Citigroup); Bengt Redlinger and Edward Mayfield (Bank of America); Roger Rice (Wells Fargo); Joseph Hwang (Goldman Sachs); Jennifer Leadbetter and Andy Shen (JPMorgan Chase & Co.); Jason Swankoski (Morgan Stanley)

Summary: Staff of the Federal Reserve Board met with representatives of the Futures Industry Association, Wells Fargo, Morgan Stanley, JPMorgan, Goldman Sachs, Citigroup, and Bank of America (collectively, FIA) regarding the agencies' Basel III notice of proposed rulemaking (Basel III proposal) and the Board's GSIB surcharge proposal (GSIB surcharge proposal). FIA representatives discussed the items in the attached materials, including their views on the treatment of client-clearing transactions and cross-product netting in the Basel III proposal and the GSIB surcharge proposal. They also discussed the timing of implementation of the proposals.

Attachments

FIA Response to the 2026 Basel III and GSIB Proposals

August 20, 2026
Federal Reserve

Executive Summary

- **A marked improvement over 2023.** The revised rules add meaningful risk sensitivity and better reflect how central clearing reduces systemic risk.
- **Filed with all three agencies.** FIA submitted its comment letter to the Federal Reserve, OCC and FDIC on June 18, 2026.
- **Targeted, technical refinements for counterparty credit risk.** A limited set of recommendations would improve the Proposal's coherence while preserving its structure and objectives.
- **Goal: protect central clearing.** Each recommendation ensures capital rules support, rather than discourage, the clearing that banks provide which helps to reduce systemic risk.

Why It Matters: Clearing Reduces Systemic Risk

- **Policy encourages clearing.** The G20 Pittsburgh commitments and Dodd-Frank deliberately promote central clearing as a pillar of financial reform.
- **CCPs cut interconnectedness.** Clearing replaces a complex web of bilateral ties with central counterparties and lets client positions be ported in a default.
- **Low risk for clearing members servicing clients.** Daily variation margin, initial margin and default-fund contributions leave clearing members with only modest residual risk.
- **The risk is already heavily capitalized.** Clearing related exposures are subject to multiple layers of prudent capital requirements, including counterparty credit risk, leverage, G-SIB and stress-capital framework, collectively resulting in capital levels that is not commensurate with the modest level of underlying credit risk.
- **Overcharging backfires.** Excessive capital reduces clearing capacity. Capital requirements that materially exceed the underlying risk may discourage new entrants and constrain the expansion of clearing capacity and potentially limiting client porting options in a default scenario.

What the 2026 Basel III Proposal Gets Right

- **Excludes client-facing derivatives from CVA.** Client-facing cleared derivatives are excluded from the credit valuation adjustment framework scope.
- **More proportional operational risk charges for client clearing.** Calculates operational risk capital for fee-based businesses on net income rather than gross revenues.
- **Enhanced alignment to risk.** Does not require an investment-grade obligor to be publicly traded to qualify for a lower risk weight (many significant clearing participants are not publicly traded).
- **Recognizes STM/CTM netting.** Permits netting of settled-to-market and collateralized-to-market derivative exposures for client facing transactions, similar to cleared.

FIA's Basel III Recommendations at a Glance

1 Recalibrate cross-product netting

Add a hedge coverage ratio (HCR) to the standalone SFT requirement.

2 Fix the affiliate clearing penalty

Let affiliate-cleared house trades qualify as cleared transactions.

3 Cross-margining in Kccp

Adopt a risk-sensitive allocation instead of a notional-based one.

4 Narrow CVA Threshold

Exclude CVA-exempt derivative from 1 trillion notional test.

Recalibrate Cross-Product Netting

- CFTC and SEC approved a customer cross margining program for client clearing, allowing offsets between cleared US Treasury exposures at FICC and Treasury futures positions at CME.
- In recognition of the benefits of cross margining in June 2026, the CFTC and SEC issued a joint cross margining consultation to expand and harmonize portfolio and cross-margining programs between the agencies.
- Cross margining reduces duplicative margin requirements, while incentivizing robust risk management standards by reducing net exposures.
- By recognizing offsetting risks, the program can more accurately align collateral with risk and improve liquidity for market participants.
- The cross-margining program supports a healthy Treasury market, as the mandate to clear is implemented. As the NPR recognizes, cross-product netting allows banks to better serve their role as clearing market intermediary.
- However, the proposed rules do not sufficiently recognize those risk offsets in capital given the conservative calibration of the formula.

Capital Recognition and Clearing Timeline

- **Treasury clearing timeline.** The SEC mandate applies to eligible cash Treasury trades from December 31, 2026, and to eligible repo from June 30, 2027.
- **Benefits of cross margining.** Cross product margining incentivizes clients to manage to lower net risk position across products with the clearing member bank.
- **Incentives matter.** If capital rules do not provide appropriate recognition of risk offsets for cross margined products, clearing member banks are less likely to offer it.
- **Timing matters.** Without a true cross product netting solution, as the mandate phases in, clearing capacity tightens just as market demand for it increases.

Recalibrate Cross-Product Netting

- **Recognition of cross product netting is appropriate.** The Proposal allows netting of client-facing derivatives against repo and reverse repo transactions, reflecting real risk management.
- **But the netting benefit is largely negated in the proposed formula.** The SFT standalone requirement in the Maturity Ratio range greatly diminishes the netting benefit between short-dated repos and longer-dated derivatives.
- **Adopt the hedge coverage ratio (HCR).** FIA endorses the ISDA/SIFMA/IIF HCR adjustment, which reflects a framework with more effectively offsetting risk.
- **Clarify V, C and NICA.** Define these terms to avoid double-counting collateral risks via haircuts if the risks are already captured in the extended SA-CCR calculation.

Fix Affiliate-Clearing Penalty

- **Fix the affiliate-clearing penalty.** For house trades through a CCP to qualify as a "cleared transaction" under the capital rules, the collateral supporting the transaction must be held in bankruptcy remote manner, including segregation.
  - CFTC rules bar an FCM clearing member from segregating the collateral of an affiliate that clears proprietary transactions through the FCM, so the affiliate house trades can face a 100% risk weight instead of 2%.
  - Because of the CFTC's rule, the banking organization may not be able to determine that the collateral of the FCM's affiliate is held in a bankruptcy remote manner, and thus unable to classify as a cleared transaction.
- **Eliminate the bankruptcy-remoteness test for affiliate house trades.** Today's rules push banks to clear through third parties, raising interconnectedness.

Cross-Margining, CVA Scope and the Alpha Factor

- **Reflect cross-margining in Kccp.** In line with the clearing member banks' calculations, apply the proposed HCR adjustment. This addresses the same diminished netting benefit issue in the QCCPs' cross-margin Kccp calculations. QCCP regulator approval should serve as the operational test.
- **Use a risk-sensitive allocation.** Replace the notional-based allocation for the hypothetical capital requirement with one that is risk-sensitive, such as the SA-CCR aggregate amount.
- **Keep the 1.0 alpha factor.** Maintain this for commercial end users; a higher 1.4 factor should never be mandatory.
- **Narrow the CVA threshold.** Exclude CVA-exempt derivatives from the $1 trillion notional test that pulls Category III and IV banks into the CVA framework.

GSIB: What FIA Is Asking For

What FIA Supports:

- **Client Clearing excluded.** Guarantee of a client's obligation to a CCP excluded from the Complexity and Interconnectedness indicators.
- **No alpha factor in Interconnectedness.** An alpha factor does not apply to derivatives exposures for interconnectedness.

What FIA Recommends to Change:

- **Fix Cross-Jurisdictional Activity.** Revise the FR Y-15 instructions so derivatives exposures from all derivatives, including cleared transactions, are excluded, consistent with the treatment of client clearing exposures.
  - Resolvability: Clearing standardizes legal documentation, risk management practices and reporting, and reduces barriers to resolution that could arise from more bespoke market practices.
  - Capital arbitrage: Clearing reduces underlying risks by replacing the bank's exposure to a counterparty with exposure to a well-regulated CCP.
  - At a minimum, exposures from cleared transactions should be calculated net of cash collateral, consistent with US GAAP and FFIEC 009 reporting.
- **Confirm cross-product netting should be permitted in the GSIB surcharge where appropriate, but not mandatory.**
  - To reflect netting benefit where appropriate, permissible election should be at the option of the bank preventing overstatement of the GSIB surcharge.
  - UST clearing is likely to have significant effects on clearing volumes and market structure. Further review of GSIB and leverage-based measures may be needed as those impacts become clearer.

Conclusion and Next Steps

- **Protect central clearing.** Each change further supports the central clearing that reduces systemic risk and increases sound risk management.
- **Refine, don't restructure.** The recommendations sharpen technical aspects of ERBA to improve risk sensitivity and internal consistency. However, we feel strongly that the cross-product netting formula should be revised to better recognize true economic risk and ensure that the Proposals' intended benefits are realized in practice.
- **FIA supports finalization.** FIA urges the agencies to finalize the Proposals with necessary additional enhancements.


FIA

From:	Jackie Mesa
To:	David Lynch; Cecily Boggs; Katherine Arnold; David Cook
Cc:	Francisco Covas
Subject:	FIA Meeting on Basel III/GSIB Capital - Follow Up
Date:	Tuesday, September 8, 2026 4:37:01 PM
Attachments:	image001.png FIA Response to the 2026 Basel III Endgame for FDIC.pptx Explanation of numerical example SLR CPN.pdf Close Out Description for Cross Product Netting .pdf

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Dear Federal Reserve Colleagues,

Thank you so much for meeting with FIA and its members on August 20. Please note that we have no objection to the powerpoint going into the public record (attached again for your convenience).

Additionally, I know there were others online that participated from the Federal Reserve. I did not catch all the names but I am happy for this email to be shared broadly.

We also met that day with the OCC and FDIC staff on the same topic. There were a number of questions asked and for some of those questions, we offered to provide detailed responses. Below are the questions asked and the FIA responses.

1. **Question –** Why are you asking for optionality for cross-product netting for SLR/GSIB?

Answer - We are attaching a numerical example showing what could happen under SLR if the formula for capital recognition for cross-product netting is applied. See attached.

2. **Question –** Explain what happens when one CCP does not have enough margin when a client defaults in cross-product netting.

Answer – It is the clearing member (FCM) that closes out the defaulting client, not the CCP. See attached explanation of client close out in cross-product netting example.

3. **Question** - Would it be appropriate to require reporting of client cleared notional data for OTC derivatives given the FIA's request regarding excluding client cleared OTC derivatives from the 1 trillion notional CVA threshold count.

Answer - OTC derivatives in FR Y-9C under HC-R section doesn't make a clear distinction or separation for client-cleared notional under OTC derivatives, so that's why we think a clarification would be helpful to ensure the threshold is only based on contracts that are in scope for CVA:

- The proposal refers to average aggregate OTC derivatives gross notional amounts of $1 trillion or more adjusted to reflect CPI-W, over the prior four quarters, as reported on the [BANKING ORGANIZATION]'s [REGULATORY REPORT]

    - In current FR Y-9C HC-R section and elsewhere in Fed rules, the definition of an OTC derivative includes both bilateral uncleared derivatives, as well as client-cleared facing legs:
        - *As defined in §.2 of the regulatory capital rules, an over-the-counter (OTC) derivative contract is a derivative contract that is not a cleared transaction. Include OTC credit derivative contracts held for trading purposes and subject to the market risk capital rule. Include the client-facing leg of a derivative contract cleared through a central counterparty or a qualified central counterparty, which is to be reported as an over-the-counter derivative*

    - Without changes to either the definition of an OTC derivative or the regulatory reporting referred to, the threshold could be read as including the client-cleared facing leg, even though this is an out-of-scope transaction for CVA.
        - The regulatory reporting forms would need to be amended to split out the bilateral uncleared notional vs. client-cleared facing legs notional, rather than the current commingled OTC derivative notional reporting and subsequent to this, have the CVA threshold point to the bilateral uncleared notional only.

    - By way of example, a bank could have $0.5trn of bilateral uncleared derivatives plus $2.5trn of client-cleared facing legs. The total OTC notional reported under HC-R today would be $3trn and therefore if this was the presence point, the bank would otherwise be brought into scope for CVA calculations, even though the in-scope transactions are below the $1trn threshold.

    - We are supportive of the regulators breaking out the above "OTC derivative" notionals into bilateral uncleared vs. client-cleared facing legs in any future reporting to support an exclusion of client-cleared OTC.

We are happy to answer any additional questions you may have regarding the consultation and our response.

Thank you,
Jackie

Jacqueline Mesa | COO and Senior Vice President, Global Policy

2001 K Street NW
Washington, D.C. 20006

T 202 772 3040 | **M** 202 270-7089
jmesa@fia.org

Can we get a numerical example for why SLR/GSIB exposures recognizing cross product netting could be higher?

The following example shows that the SLR exposure with cross-product netting recognition can be higher than the SLR exposure as currently calculated without cross-product netting recognition. The example relates to a client cleared exposure where the bank has a $220MM reverse repo and a 200MM long future exposure with the client.

The following table shows the exposure amount for risk-based and SLR purposes under the three different methodologies:

	220MM Reverse Repo vs 200MM Future
EAD for Risk-Based, No Cross-Product Netting	8,103,462
EAD for Risk-Based, Cross-Product Netting (US NPR)	7,459,248
EAD for Risk-Based, Cross-Product Netting (Industry Proposal)	2,476,228
EAD for SLR, No Cross-Product Netting	2,145,503
EAD for SLR, Cross-Product Netting (US NPR)	7,459,248
EAD for SLR, Cross-Product Netting (Industry Proposal)	2,476,228

The exposure for risk-based shows the usual impact pattern where the cross-product netting methodology as per the US NPR only shows a small decrease ($7.5MM vs $8.1MM) and the industry proposed formula a larger decrease ($2.5MM vs $8.1MM) compared to the current approach where derivative and repo exposures are calculated separately ($8.1MM).

For SLR, only the derivative exposure needs to be included as an off-balance sheet exposure under SA-CCR ($2.1MM) given the trade specification that the lending amount of $220MM is equal to the value of the treasury collateral of $220MM which means that the repo off-balance sheet exposure amount E-C is zero. This trade specification is a reflection of the fact that initial margin is calculated on a portfolio basis and not trade by trade and therefore we do not expect trade-by-trade haircuts. The EAD for cross-product netting under SLR would be equal to risk-based and as such higher than the current exposure amount for SLR. The substantially higher amount under US NPR ($7.5MM) is driven by the additional repo exposure that is included in the 1-MR term whereas currently the off-balance sheet exposure amount for repos would be zero as mentioned above. The slightly higher amount under the industry proposal ($2.5MM vs $2.1MM) is driven by the fact that the repo exposure is slightly higher and as such not fully offset by the derivative exposure, i.e., $220MM vs 200MM resulting effectively in the net $20MM of repo exposure reflected in the industry proposal's EAD whereas currently under SLR the off-balance sheet exposure amount for repos would be zero as explained above.

Description of Methods for Liquidating a Defaulting Customer's Futures/Cleared Swaps and Cleared Repos

Liquidation of a defaulting customer's futures and cleared swaps positions.

There are different methods a futures commission merchant (the **FCM**) could use to liquidate a defaulting customer's open positions in futures or cleared swaps contracts, but each of the methods would seek to close the positions or remove them from the relevant omnibus customer positions account maintained for the FCM by the derivatives clearing organization (the **DCO**) that clears the positions.

For example, subject to DCO rules and procedures and operational feasibility, a FCM could liquidate an open position by:

> (i) in the case of a futures contract, offsetting it with an equal and opposite contract (an **offsetting contract**) executed by or on behalf of the FCM, which offsetting contract would be directly credited to the FCM's omnibus customer positions account in which the customer's open position was carried and, upon its recordation in such omnibus customer positions account, would result in cancelation of both the original position and the offsetting contract; or
>
> (ii) in the case of either a futures contract or a cleared swap contract, causing the relevant DCO to debit or otherwise remove the position from the FCM's omnibus customer positions account by book-entry transfer of the position to either the FCM's house account or a third party's account, which in either case could be completed as a single position transfer or as part of a transfer of a portfolio of open positions.

Gains/losses realized in liquidating a defaulting customer's positions would be for the account of the customer. For example, if the FCM sold a portfolio of the customer's positions to a third party (including an affiliate of the FCM), an amount paid by the third party to the FCM for the portfolio would be a gain, and an amount paid to the third party by the FCM for the portfolio would be a loss, for the customer's account. An FCM could also simply assign a value to a portfolio of open positions transferred to its house account. In such case, the FCM would have a duty to account to the customer for such value if the customer was in-the-money, and the customer would have a duty to indemnify the FCM for such value if the customer was out-of-the-money.

The FCM could also enter into one or more contracts in order to hedge or otherwise reduce the risks associated with the customer's portfolio during the liquidation of the customer account, and there could be costs incurred by the FCM in connection with entering into

such hedges or risk-reducing trades, which would be for the account of the customer and reimbursable by it.

Upon completion of the liquidation of the customer's open positions, the FCM would aggregate the gains, losses, costs and expenses realized in connection with the liquidation in order to determine a single net payment owed to or by the customer and settled in accordance with the clearing agreement. Also, as open positions at the DCO are closed, the DCO would release margin held by it in respect of the positions to the FCM, which would apply the margin to satisfy any balance owed by the customer.

Liquidation of a defaulting customer's open repo positions cleared through FICC.

Done-with transactions. For liquidation of a defaulting customer's "done-with" transactions cleared by a FICC clearing member (**CM**), whether it is a Sponsoring Member or an Agent Clearing Member, the CM could deliver a termination notice to FICC in order to cause the termination of (i) the customer's open positions in the relevant omnibus customer positions account maintained for the CM by FICC and (ii) the corresponding offsetting positions in the CM's house account. The CM would calculate a liquidation amount in respect of the customer's positions, which would be due to or from FICC from or to the customer (the **Customer Liquidation Amount**), and a liquidation amount in respect of the CM's house account positions, which would be due to or from FICC from or to the CM (the **CM Liquidation Amount**). If a Customer Liquidation Amount was due to FICC, the CM Liquidation Amount would be due to the CM. If a Customer Liquidation Amount was due to the customer, the CM Liquidation Amount would be due to FICC.

The CM Liquidation Amount would include losses and/or gains realized by the CM in entering into offsetting or replacement transactions and/or entering into or terminating hedges in connection with the liquidation of the CM's positions, and the corresponding Customer Liquidation Amount would be deemed to equal such CM Liquidation Amount. If a Customer Liquidation Amount was due to FICC from the customer, the CM would have an obligation to pay it to FICC, and that obligation of the CM would be set off against FICC's obligation to pay the corresponding CM Liquidation Amount to the CM (leaving the CM with a right under the customer's clearing agreement to be reimbursed by the customer for the CM's payment of the Customer Liquidation Amount to FICC).

If a Customer Liquidation Amount was due to the customer from FICC, FICC would be obliged to transfer funds equal to such amount to an account of the CM, and the CM's obligation to pay FICC the corresponding CM Liquidation Amount would be discharged by the CM depositing the amount of the CM Liquidation Amount in such account for application to FICC's obligation to pay the corresponding Customer Liquidation Amount to

the customer. To the extent the CM transferred funds to such account, FICC's obligation to pay the Customer Liquidation Amount, and the CM's obligation to pay the CM Liquidation Amount, would be discharged.

The customer may grant the CM a security interest under the customer's clearing agreement in the deliver, receive and related payment obligations owed by FICC to the customer in respect of the customer's transactions cleared through FICC, including the customer's rights to receive payment of any Customer Liquidation Amount. Additionally, the customer may grant the CM a security interest under its clearing agreement in any customer margin collected from the customer. As the CM liquidated the customer's positions, FICC would return such margin to the CM, which could enforce its security interest to apply the returned customer margin against obligations owed the CM by the customer.

Done-away transactions. FICC has also amended its rules to provide a CM, whether it is a Sponsoring Member or an Agent Clearing Member, the ability to liquidate a defaulting customer's open positions in done-away trades by using offsetting trades or by causing the positions to be transferred to its house account, just like the steps described above with respect to DCOs and futures/cleared swaps liquidations.