

**Meeting Between Staff of the Federal Reserve Board, Office of the Comptroller of the
Currency, and Federal Deposit Insurance Corporation and Representatives of the Futures
Industry Association
June 30, 2025**

Participants: David Alexander, Anna Amirdjanova, Christopher Appel, Norah Barger, Lesley Chao, Brian Chernoff, Isabel Echarte, Anna Lee Hewko, Aakash Jani, David Lynch, Victoria Maizenberg, Vikram Ramnarain, Hannah Sheldon, and Nadya Zeltser (Federal Reserve Board)

Carl Kaminski, Benjamin Pegg, and Margot Schwadron (Office of the Comptroller of the Currency)

Benedetto Bosco, Bob Charurat, Soo Jeong Kim, Iris Li, Olga Lionakis, Merritt Pardini, Joanne Rose, Rick Smith, Catherine Wood, and Peter Yen (Federal Deposit Insurance Corporation)

Jaqueline Mesa and Mitja Siraj (Futures Industry Association); Alicia Crighton, Jonathan Silverstone, and Harry Yang (Citigroup); Roger Rice (Wells Fargo); Helen Gordon and Debbie Toennies (JPMorgan); Damian Kudelka, Edward Mayfield, and Bengt Redlinger (Bank of America); Andrew Nash, Jason Swankoski, and Daniel Wiebicke (Morgan Stanley); Joseph Hwang (Goldman Sachs); Brian Salley and Lauren Thompson (Barclays)

Summary: Staff of the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency met with representatives of the Futures Industry Association, Wells Fargo, Morgan Stanley, JPMorgan, Goldman Sachs, Citigroup, Barclays, and Bank of America (collectively, FIA) regarding the Board's GSIB surcharge proposal (proposal). FIA representatives discussed concerns about the impact of the proposal, particularly as it relates to derivatives clearing activities. FIA representatives focused their discussion on concerns related to the treatment of over-the-counter client clearing and derivative exposures in certain indicators.



FIA Supports US Bank Capital Revisions That Incentivize Client Clearing

June 2025



Cleared Derivatives Market Challenges

- In the US, firms that clear derivatives for clients must be registered with the Commodity Futures Trading Commission as "Futures Commission Merchants" (FCMs).
 - As of March 2025, six US GSIB bank FCMs held \$174.9 Billion of customer segregated funds, as reported by CFTC data. This represents 58.3% of ALL segregated funds held by FCMs.
- According to 2025 data from the CFTC, there are 53 registered and active FCMs providing customers with access to exchange traded derivatives markets, a roughly 50% decline during the past twenty years.
- Additionally, there are a limited number of banks that provide clearing services for over-the-counter (OTC) derivatives. When Dodd-Frank Act reforms became effective in 2014, there were twenty-two FCMs providing OTC clearing. Today, there are only twelve OTC clearing banks, with seven of these banks comprising 94% of the market.
 - The top six banks are US BHCs and comprise 85% of the market.



Executive Summary

- SLR/eSLR impact on the US Treasury Market
- New central clearing mandates and associated capital challenges
- Existing challenges in the centrally cleared derivatives markets
- Concerns about the US Basel III Endgame and GSIB Surcharge proposals



SLR/eSLR Impact on the US Treasury Market



SLR/eSLR Impact on the US Treasury Market

- SLR/eSLR Proposed Revisions
 - We note that the Federal Reserve published proposed changes to the SLR/eSLR on June 25, 2025.
 - We thank the Federal Reserve for considering long-standing industry concerns in relation to the SLR /eSLR, especially as they relate to the provision of clearing services.
 - We note Federal Reserve Chairman Jerome Powell has acknowledged that intermediation capacity, particularly related to the Treasury markets, has grown significantly and that he is open to exploring the binding nature of the SLR.
 - FIA and its members are in the process of reviewing the proposed changes to the SLR/eSLR and will provide comments in due course.



New Central Clearing Mandates and Associated Capital Challenges



New Central Clearing Mandates and Associated Capital Challenges

- The SEC mandated Treasury cash clearing by end of 2026, and repo clearing by June 30, 2027.
- The US Treasury market is over \$29 trillion in outstanding securities.
- It is anticipated end users will require increased cash and repo clearing capacity from agency clearers and seek the service from FCMs.
 - FCMs are connected to a network of CCPs and have the ability to secure risk/margin offsets with their Treasury futures clearers.
 - The industry understands that the FICC-CME client cross-margining initiative might be approved prior to the treasury clearing mandate go-live.
- Under the current applicable capital ruleset, barriers exist for U.S. banks to build a business case for build out of new agency offerings, specifically:
 - The capital calculation does not recognize the risk offsets, in a standardized framework which is generally the binding constraint in the US;
 - Some non-US banks may have the ability to benefit from the recognition of cross-product netting by utilizing internal models for RWA exposures, subject to regulatory approval.



Treasury Clearing

- FIA, ISDA, and SIFMA have proposed to the US banking agencies to extend SA-CCR for US Treasury repos, which would recognize the offsets between cleared US Treasury repo-style transactions and US Treasury futures.
- It is critical to recognize in the US Basel III rules the benefits of offsetting cleared Treasury repos and futures subject to a qualifying cross-product master netting agreement.
 - FIA urges regulators to recognize client cross-margining and cross-product netting between repo-style transactions and treasury futures under the capital framework – capital held by Banks should reflect the risk incurred.
 - FIA urges regulators to implement a better calibration for the exposure to default funds (Kccp calculations) for QCCPs that have cross-margining arrangements.
 - Consistent with the client cleared OTC derivative exposures under the agency model, client-cleared repos should be excluded from the GSIB interconnectedness indicator.



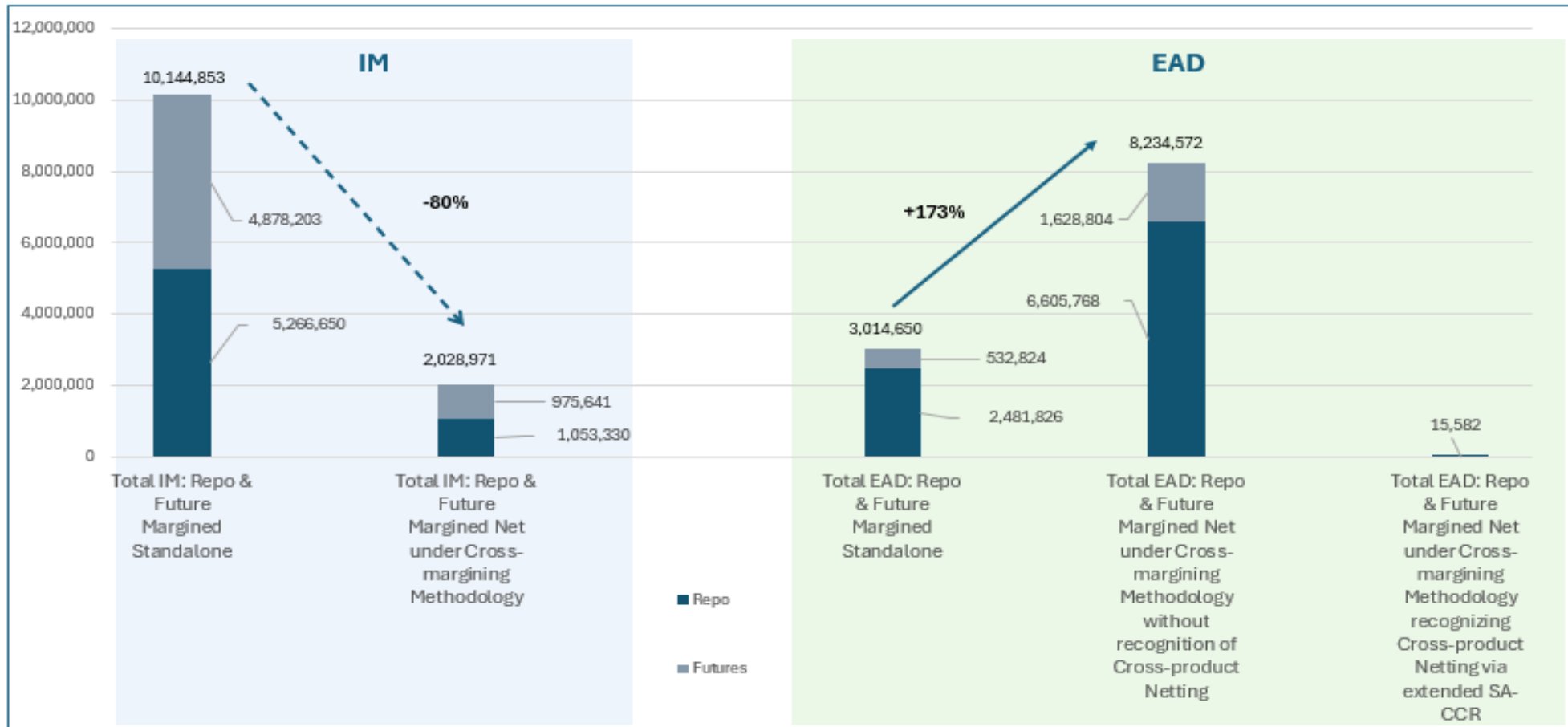
Cross-Product Netting

- The principle of recognition of cross-product netting should apply to a **broad scope of products**, including US Treasuries and repos.
- In the context of Treasury Clearing: Under the CME-FICC Cross-Margining Arrangement, a clearing member participating in both clearing houses and clearing eligible products can reduce its total initial margin requirements for a hedged portfolio consisting of repo/cash US Treasury positions cleared through FICC and US Treasury futures contracts cleared through CME:
 - The aggregate net initial margin will be less than the amount of gross initial margin that the market participant is required to post to each of CME and FICC individually, as determined on a single-product basis;
 - While this arrangement does currently only apply to house trades, it is expected to be expanded to client cleared exposures.
- The following slide visually demonstrates the reduction of risk in a hedged portfolio and the importance for capital requirements to be calibrated to reflect the level of risk.

Impact of a Portfolio of Repos and US Treasury Futures Subject to Cross-margining Without Reflecting Cross-product Netting (\$)

Portfolio	Exchange	Trade Desc	Product Type	Initial Margin
XM	FICC	Reverse Repo on 10year T-Note. \$270M, expiring in 7years	REPO	1,053,330
	CME	Long 2500 contracts 10-year T-Note futures	FUT	975,641

Example calculation: assume Bank1 has long treasury futures offsetting reverse repos in a cross-product margining arrangement





Existing challenges in the centrally cleared derivatives markets



SA-CCR Proposed Revisions

- **General** - US banks have been operating under SA-CCR methodology for several years. With the benefit of this experience, as well as new developments in the markets including proposals to broadly adjust the US bank capital framework, FIA urges US prudential regulators to consider several revisions to the SA-CCR methodology. Some of these recommendations include the following:
 - **Alpha Multiplier** - The SA-CCR alpha multiplier is 1.4x for risk-based capital requirements, leverage ratio and large exposures against non-CEU counterparties. FIA believes the 1.4x alpha multiplier is based on a flawed premise. Firstly, the industry does not believe the application of an alpha multiplier to the replacement cost (RC) is justified given that the amounts are either fixed as in the case of threshold amount or subject to rigorous price testing and valuation procedures as in the case of derivative fair values. Secondly, the US SA-CCR proposal stated that the standardized approach should not produce lower exposure amounts than a modeled approach, but in the US under the Basel 3 Endgame IMM is not any longer a relevant reference point. FIA urges regulators to consider removing the alpha multiplier from the RC calculation and separately conduct an analysis to recalibrate the alpha multiplier for PFEs.



SA-CCR Proposed Revisions – cont'd

- **Netting of STM/CTM Transactions** - Derivatives being classified as Settled-to-Market (STM) vs Collateralized-to-Market (CTM) is a distinction that does not drive a difference in the risk profile with respect to netting in portfolios that include both types. As such, netting should be allowed for exposure purposes across multiple derivatives contracts, irrespective of STM/CTM classification, with a single counterparty, consistent with legal enforceability of netting contracts. SA-CCR currently ignores legally enforceable netting arrangements between STM and CTM client cleared transactions.
 - FIA urges regulators to recognize netting for STM and CTM for client cleared trades as is already allowed for house trades.
- **Recalibration of Supervisory Factors (e.g. Equities)** - Currently supervisory factors for the equity asset class are conservative and overstate risk relative to observed volatility as well as inconsistent with calibration in comparable context, e.g. FRTB.
 - FIA urges regulators to ensure that the supervisory factors for the equities asset class are revisited as part of the FRTB roll-out as mentioned in the SA-CCR final rule.



Counterparty Credit Risk – Collateral Eligibility

- **Letters of Credit as Eligible Financial Collateral** - Banking organizations often receive letters of credit in support of a commercial end-user's (CEU's) derivatives portfolio. Letters of credit can provide credit risk mitigation benefits similar to IM because banking organizations can make draws against them to receive cash as a CEU's credit quality deteriorates, as the CEU approaches default or prior to the expiration of the letters of credit if it is not replaced with one of a longer maturity. However, to date, there is zero recognition of letters of credit in calculating exposure at default, even though in practice they serve as strong credit enhancements.
 - Given that CCPs, including Federal Reserve regulated SIFMUs, are permitted to recognize letters of credit as an acceptable form of collateral, FIA would welcome regulators recognizing letters of credit in calculating exposure at default.



US Basel III Endgame and GSIB Proposal Concerns

US Basel III Endgame and GSIB Proposal Concerns

- FIA also continues to have concerns about the July 2023 Basel III Endgame Proposal and GSIB Surcharge Proposal which exacerbate the issues covered in the existing rules
- The table below represents the capital requirement attributable to six US GSIBs' client clearing activity as of June 30, 2023*

	Capital Requirement Expressed in Dollars (billions)	Percentage Increase in Capital Requirement
Current U.S. Standardized Approach	\$8.96	N/A
Net Increase from Endgame Proposal	\$2.01	22.4%
Net Increase from Surcharge Proposal	\$5.20**	58.1%
Total Net Increase from Proposals	\$7.21	80.5%

*The data collection and analysis for this quantitative impact study (QIS) was conducted by the GARP Benchmarking Initiative (GBI)®, a division of the Global Association of Risk Professionals® (GARP). GARP®, a nonpartisan, non-profit corporation, is the world's leading professional association for risk managers, dedicated to the advancement of the profession through education, research, and the promotion of best practices. GARP does not lobby, take advocacy positions, or engage in any advocacy related to the data it collects and analyzes.

**We calculated this capital impact of \$5.20 billion by reflecting the changes to the six participating firms' Method 2 G-SIB Surcharge scores arising from the Surcharge Proposal's changes to the treatment of client clearing activities. Specifically, the net increase takes account of the increases to these firms' Method 2 scores arising from the proposed inclusion of client OTC clearing under the agency model to the Complexity and Interconnectedness indicators as well as a modest decrease to Method 2 scores attributable to client clearing activities arising from the incorporation of SA-CCR into the Interconnectedness indicator. For purposes of calculating the impact of changes to the Interconnectedness score, participating firms assumed that the alpha factor in the version of SA-CCR used in Interconnectedness indicator would be 1.0, which is consistent with industry recommendations but provides more conservative (lower) projected impact than if the Board decided to apply an alpha factor of 1.4, as proposed. We translated this Method 2 score increase into a G-SIB Surcharge capital requirement increase by dividing the score increase by 20 and multiplying by 10 basis points (which is the size of the increase in capital requirement for each 20 point increase in Method 2 score). We then multiplied this projected increase in capital requirement by the total risk-weighted assets for the participating firms, calculated under the Endgame Proposal's expanded risk-based approach, to arrive at the aggregate capital impact for the six firms.



US GSIB Surcharge Proposal (*Fed Proposal*)

- **OTC Client Clearing** - The GSIB proposal would add the OTC client cleared leg under the agency model to the Complexity and Interconnectedness Indicators of the GSIB Surcharge. This would significantly increase capital requirements for the OTC client clearing activities of US GSIBs. Since the inception of the GSIB Surcharge in the US, client clearing under the agency model has been excluded from the Complexity and Interconnectedness indicators. Additionally, it should be emphasized that client clearing of OTC derivatives reduces the complexity in the resolution of a GSIB, compared to GSIBs engaged in bilateral OTC derivatives trading. See chart in Appendix for more details.
 - FIA urges the Federal Reserve to completely remove the principal model for OTC client clearing from the complexity and interconnectedness indicators of the GSIB surcharge, and to urge for this outcome at the Basel level.
- **SA-CCR Alpha Factor** - The GSIB proposal would incorporate SA-CCR to measure derivative exposures for purposes of the Interconnectedness indicator wherein the alpha factor would be reflected in the potential future exposure calculation.
 - FIA urges the Federal Reserve to exclude the SA-CCR alpha factor from the GSIB surcharge calculations where applicable in measuring derivative exposure.
- **Cross Jurisdictional** - The GSIB proposal would revise the systemic indicators for cross-jurisdictional claims and cross-jurisdictional liabilities to include derivatives exposures, which generally would be calculated gross of collateral.
 - FIA urges the Federal Reserve against adding a measurement of derivative exposures to cross-jurisdictional activity indicators.
- *See appendix for additional detail about the GSIB Surcharge*



US Basel III Endgame Proposal (*Joint Fed/FDIC/OCC Proposal*)

- **Credit Valuation Adjustment** - Inclusion of client clearing in the CVA framework is unnecessary as the only client-related credit risk that the clearing member faces is risk of client default, which is already captured in existing counterparty credit risk framework.
 - Banks do not include client cleared derivatives in their accounting CVA as banks are not exposed to CVA risk.
 - A risk of client default is unlikely and mitigated by margin set by the clearinghouse - which doesn't vary based on the creditworthiness of the counterparty.
 - The EU and UK have exempted client cleared derivatives as banks cannot suffer CVA related losses on these transactions.
 - FIA urges regulators to remove client clearing completely from any CVA framework contemplated, replicating approach adopted by other jurisdictions such as the UK and the EU.
- **Operational Risk** - The Endgame Proposal's approach to calculating the services component of operational risk would serve as a tax on clearing; doesn't distinguish risk and is based on gross fees. Calculating operational risk capital requirements on a gross basis would disproportionately impact derivatives clearing, even when compared to other fee-based businesses, for two reasons.
 - Clearing members may account for these fees as their own revenues and expenses, and treatment may vary by region. As a result, clearing members can have artificially high gross revenues – gross revenues that can be multiples of the net revenues that clearing members retain. But this practice does not mean that the clearing business is any more complex or prone to operational losses.
 - Unlike many other fee-based businesses, the derivatives clearing business is subject to significant capital charges elsewhere in the capital rules, including the credit risk framework.
 - FIA urges regulators to revise operational risk treatment for client clearing activity from any future proposal.



US Basel III Endgame Proposal Continued (*Joint Fed/FDIC/OCC Proposal*)

- **Counterparty Credit Risk** - The Endgame Proposal's public listing requirement for investment grade entities unfairly penalizes highly-rated privately owned companies, pensions and mutual funds because the new rules deem them riskier than their public counterparts.
 - FIA urges regulators to remove the prior proposal's requirement for an investment grade company to be publicly traded to get a lower risk weight. This harms end-users, many of which are not publicly traded and will receive higher risk weight. Further, this would result in competitive imbalance across jurisdictions (e.g., UK and EU) where this is not a requirement.
- **Decomposition of Options on Indices within SA-CCR** - The Endgame Proposal sought to clarify that banking organizations are prohibited from decomposing nonlinear index contracts, such as equity options based on an index, when calculating the exposures associated with the clearing or trading of those contracts. The inability to decompose non-linear trades under SA-CCR is problematic for listed options and would lead to an overstatement of exposures. For example listed options on almost identical underlyings (e.g., SPX vs SPY) traded by a clearing member client could not be netted on a constituent level and instead considered different indices as part of the aggregation in the exposure at default (EAD) calculation under SA-CCR. In addition, linear transactions, e.g., futures, that if they are decomposed could not be netted with options on these indices. This would lead to an overstatement of exposures.
 - FIA urges regulators to allow for the decomposition of options on indices within SA-CCR.
- **Proposed Risk Weights of Exposures to Foreign Banks** - The Endgame Proposal's enhanced risk-based approach would establish risk weights of 40 percent, 75 percent, or 150 percent for exposures to foreign banks, as compared to the current standardized approach's risk weights of 20 percent or 50 percent for exposures to most foreign banks.
 - FIA urges regulators against any future proposed changes to risk weights of exposures to foreign banks.



Appendix



Joint Trade Advocacy Related to Cryptoasset Exposures chapter of the Basel Framework

- FIA has joined the Global Financial Markets Association (GFMA), the Institute of International Finance (IIF), the International Swaps and Derivatives Association (ISDA), the Financial Services Forum (FSF), the Bank Policy Institute (BPI), the International Capital Market Association (ICMA), the Global Blockchain Business Council (GBBC); Global Digital Finance (GDF), and the Crypto Council for Innovation (CCI), in calling on the BCBS to further consults on a set of targeted revisions to the Cryptoasset Standards and to also revise the implementation date.
- The Associations, together with Sullivan and Cromwell, Ashurst, and Boston Consulting Group, will be producing a market update on use cases to help in the near term providing both public and private sectors capacity building on market developments globally.
 - FIA urges US regulators to not implement the Basel standards as currently finalized.

GSIB Schedule (Method 2)	Current Treatment – Clearing	NPR Impact to Clearing	Comments
A – Size Line Item 1 – Derivative Exposure	<ul style="list-style-type: none"> Clearing members (CM) are required to include guarantee provided for exposures related to CMC or CCP performance. 	<ul style="list-style-type: none"> Unchanged 	<ul style="list-style-type: none"> Systemic risk resulting from a CM's guarantee of CMC's obligation already captured in Size indicator and will be triple counted based on G-SIB NPR GSIB inclusion overlaps with capital requirements related to derivative clearing activity, which already incorporates CCR under SA-CCR, CCP default contributions and SLR <u>Requested treatment</u>: There are multiple layers of regulatory capital requirements applied to US G-SIB's client clearing activity, the proposed NPR changes increase the extent of overlapping requirements
B – Interconnectedness Line Items 5 & 11 – OTC Derivative contracts with financial institutions that have positive/negative fair value	<ul style="list-style-type: none"> CMs are currently not required to include CMC guarantees for Agency transactions Both the client-facing and CCP leg are required for inclusion under Principal Model 	<ul style="list-style-type: none"> NPR proposes inclusion of client guarantee leg for Agency transactions as well as updating the calculations used from CEM to SA-CCR 	<ul style="list-style-type: none"> Client clearing greatly reduces the inter-connectedness when compared to bilateral OTC derivative arrangements – the client counterparty is the CCP and margin is segregated from the CM's funds and CCP. The number of counterparties exposed to a clearing member is greatly reduced to a clearing member versus bilaterally. <u>Requested treatment</u>: Final rule should not include a firm's guarantee of client performance to a CCP under the Agency model. This could discourage central clearing, harming end users with reduced access and potentially impairing financial stability. Consistent with this client cleared Securities Financing Transactions (SFTs), should not be included in the interconnectedness indicator.
D – Complexity <ul style="list-style-type: none"> Line 1 & 2 - Cleared OTC & Bilateral OTC Notional Line 11 – Level 3 assets 	<ul style="list-style-type: none"> Both the client-facing and CCP leg are already required for inclusion under Principal Model 	<ul style="list-style-type: none"> NPR proposes inclusion of client guarantee leg under Agency model 	<ul style="list-style-type: none"> Client clearing decreases the complexity of the market and reduces bespoke bilateral arrangements resulting in financial institutions facilitating transactions with a more standardized and transparent system of transactions with a CCP. Indicator is intended to capture barriers to resolution and by this standard, there is no basis for treating client OTC clearing activity the same as bilateral OTC transaction NPR is a deviation from international standards putting US Banks at a needless competitive disadvantage. <u>Requested treatment</u>: Remove the proposed changes to Complexity
E – Cross-Jurisdictional	<ul style="list-style-type: none"> Currently no impact 	<ul style="list-style-type: none"> NPR proposes inclusion of derivative exposures gross of collateral 	<ul style="list-style-type: none"> Proposed change unnecessary and inadequately justified given derivative exposures are captured in three GSIB categories and other parts of capital framework as noted earlier. <u>Requested treatment</u>: Not add a measurement of derivative exposure to cross-jurisdictional activity indicators.
G – Short-Term Wholesale Funding	<ul style="list-style-type: none"> No impact 	<ul style="list-style-type: none"> No impact 	N/A

FIA

The image features the letters 'FIA' in a bold, sans-serif font. The 'F' is dark grey. The 'I' is also dark grey. The 'A' is composed of two overlapping shapes: a light green one in the background and a bright blue one in the foreground. The background is a complex geometric pattern of large triangles in light green, light blue, and light grey, meeting at various angles.