

**Meeting Between Staff of the Federal Reserve Board and
Representatives of JPMorgan Chase & Co.
October 10, 2023**

Participants: David Lynch, Brian Chernoff, Hulusi Inanoglu, Diana Iercosan, Cecily Boggs, Nadya Zeltser, Sarah Dunning, Devyn Jeffereis, and Mark Buresh (Federal Reserve Board)

Debbie Toennies, Bruce Broder, Alistair Webster, and Sachin Gocoldas (JPMorgan Chase & Co.).

Summary: Staff of the Federal Reserve Board met with representatives of JPMorgan Chase & Co. (JPMC) regarding the agencies' Basel III endgame notice of proposed rulemaking (Basel III endgame proposal). Representatives of JPMC expressed concerns related to the Basel III endgame proposal, focusing on the proposal's framework for market risk and credit valuation adjustment risk.

Attachment

J.P.Morgan

JPM Bilateral with US Agencies B3E US NPR Feedback

October 2023

All rule references are from the Federal Register / Vol. 88, No. 179 / Monday, September 18, 2023 / Proposed Rules

B3E US NPR – FRTB Top Discussion Topics

Term Repo-Style Transactions (RST)

- NPR wording is unclear on inclusion of term RST in Market Risk and creates a material disconnect between the capital calculation and economic risk profile
- § 205 (g) (1) requires the bank to capture the “**market price risk**” and the “**issuer-default risk**” of the transaction
- The market price risk of an RST is solely to the relevant interest rate and repo spread, and there is no collateral issuer default risk
- The preamble (p. 64147-64148) implies the direct risk factors of the collateral should be included, in addition to those of the RST
- The bank does not have any direct market risk or issuer default risk exposure to the collateral, so it is incorrect to include this
- The impact of including underlying collateral risks in Market Risk would be very material. Instead, banks will not recognise any non-financial collateral which will lead to a material overstatement of RWA compared to the economic risk for such repos. This may present challenges for the repo market.
- Treatment under current rule is correct and should be maintained: “inclusion in Market Risk Capital” relates to the market risks of the RST (i.e., the IR risk incorporating the repo spread) and not the direct risks of the collateral itself

Agency TBA/MBS/Pools

- NPR wording is unclear and seems contradictory – preamble (p. 64123) for Credit Spread Risk states that UMBS should be treated as a separate issuer to Fannie/Freddie, with application of 35% intra-bucket correlation, while the footnote on the same page notes that “UMBS allows for Fannie Mae or Freddie Mac to deliver, thus creating basis risk...”
- In contrast, in the calculation of Net Default Exposure for DRC (p. 64125), it states “a [Bank] may fully offset long and short exposures to UMBS that are issued by two different obligors”.
- Consistent with the single security initiative, clarify in final rule understanding that all UMBS TBA and UMBS-compliant pools/MBS should be treated as exposures to a single issuer (“UMBS”); non-compliant pools/MBS would be treated as exposures to separate obligors (Fannie, Freddie)

B3E US NPR – FRTB Top Discussion Topics (cont)

Correlation Trading Portfolio – DRC

- NPR made important corrections to Basel text to allow (in fact require) decomposition in Delta and Curvature, aligning with economics and risk management. However the rule text around decomposition of CTP positions for DRC calculation remains unclear, potentially disallowing decomposition and creating a disconnect with risk management.
- Decomposition to single name exposures hugely important for CTP – unclear how rule requirement is to be applied – *“the sum of decomposed single name amounts would be required to be consistent with the undecomposed value of the tranching CTP position”*
- Risk weights and buckets are not specified for decomposed single name exposures
- Proposal: Aligned with risk management, CTP positions should be decomposed to underlying single name exposures (in line with requirement for SBM calculations) and then follow the same approach, risk weights and buckets as the DRC for non-securitisations

Alignment of Volcker Desk and IMA Trading Desk

- Requirement that designation of FRTB Trading Desk should be the same “unit of organization” as Volcker Desk is problematic for successful pursuit of IMA desk approvals
- Volcker/FRTB requirements for a “Trading Desk” (accountability, business strategy etc) are not fully aligned with the granularity required for internal model usage (permissibility of modelling, risk characteristics, modellability, model performance).
- Allowing each Volcker/FRTB Trading Desk to be comprised of one or more “IMA Desks” and/or “SA Desks” would address this misalignment while remaining compliant with the finalized Volcker 2.0 rule
- Short of providing this allowance, we request the agencies acknowledge (e.g. in the final rule preamble) that it is anticipated that FRTB IMA requirements may require redesignation of a bank’s Volcker desks for the reasons stated above, potentially resulting in an increased number of Volcker desks versus historical designations