June 30, 2016

Mr. William Coen
Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
SWITZERLAND

Re: Negative Effects on End User Clients of Asset Managers Caused by Basel Leverage Ratio's Failure to Recognize Exposure-Reduction of Client Segregated Initial Margin on Cleared Derivatives Exposures

Dear Mr. Coen:

The Asset Management Group ("AMG") of the Securities Industry and Financial Markets Association ("SIFMA") appreciates the opportunity to comment on the Basel Committee's Consultative Document: Revisions to the Basel III Leverage Ratio Framework (the "Proposal").[1] AMG members are U.S. asset management firms whose combined global assets under management exceed $34 trillion. As asset managers, AMG members enter into cleared derivatives on behalf of their clients, generally not as principal.[2] This letter sets forth the results of our member survey demonstrating that the Basel Leverage Ratio's failure to recognize the exposure-reducing effect of segregated initial margin is already having an adverse effect on our members' clients' access to cleared derivatives. Unless the final Leverage Ratio Standard includes an offset for segregated initial margin, these effects may be amplified as the Leverage Ratio becomes a binding minimum requirement.

As the Proposal acknowledges, AMG and other market participants have expressed concerns that the Basel Leverage Ratio's failure to recognize the exposure-reducing effect of initial margin will adversely impact the ability of clearing members to provide client clearing services to end users like our members' clients. In February 2016, AMG wrote to the Committee to detail how the Basel Leverage Ratio has adversely affected asset managers' ability to access cleared derivatives to hedge their clients' risks and reduce investment volatility due to this failure.[3] We have also had meetings with national regulators to discuss our concerns. Notwithstanding these concerns, the Proposal would adopt a version of the Standardized Approach for Counterparty Credit Risk ("SA-CCR") to calculate derivatives exposures that would not recognize the

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[1] Basel Committee on Banking Supervision: Revisions to the Basel III Leverage Ratio Framework – Consultative Document (Apr. 2016), available at http://www.bis.org/bcbs/publ/d365.htm.

[2] The clients of AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds. They use futures and cleared swaps, as well as other derivatives, for a range of purposes, including as a means to manage or hedge investment risks such as changes in interest rates, exchange rates, and commodity prices.

[3] SIFMA AMG Submits Comments to the Basel Committee on Banking Supervision on Higher Prices and Reduced Access to Clearing Experienced by Asset Managers (Feb. 1, 2016), available at http://www.sifma.org/issues/item.aspx?id=8589958563.

exposure-reducing effect of segregated initial margin posted by a client on a clearing member's potential future exposure. The Proposal indicates, however, that the Committee is still considering whether the final Leverage Ratio standard will recognize the exposure-reducing effect of initial margin. In deciding whether to permit such an offset, the Committee will consider the effects of the Basel Leverage Ratio on the client clearing business model, and thus the Proposal invites commenters to provide evidence and data relating to these effects.

In this context, we believe evidence and data related to the impact of the Basel Leverage Ratio on end users would be useful in the Committee's consideration of this issue. As we described in our February 2016 letter to the Committee, we conducted a survey of AMG members to determine the effect of the Basel Leverage Ratio's failure to recognize the exposure-reducing effect of segregated initial margin on their ability to access clearing services for clients. Twelve AMG members responded to the survey, representing an aggregate of over $1 trillion in assets under management. The survey results show that the Basel Leverage Ratio's failure to recognize the exposure-reducing effect of segregated initial margin is already having an adverse effect on AMG members' clients. AMG members have confirmed that their survey responses remain accurate as of the date of this letter, and therefore, we would like to re-submit these results so that they form a part of the Committee's record in considering the Proposal. These are set forth below:

1. A substantial number of AMG members have been asked by their clearing firm to pay higher clearing fees.

Percentage of Respondents That Have Been Asked to Increase Clearing Fees By Product				
Futures	Options	Interest Rate Swaps	FX Swaps	Credit Swaps
50%	50%	60%	50%	64%

2. A substantial number of AMG members have been asked by their clearing firm to reroute execution business to it, that is, in order to avoid larger increases in clearing fees, to use the same clearing firm for both trade execution and as their clients' clearing account holder. It is common for AMG members to use one or more clearing firms for execution, and separate clearing firms for the clearing accounts of the entity the AMG member is managing. End users pay separate fees for clearing and for execution of derivatives. Investment advisers acting as fiduciaries have an obligation to obtain "best execution" for clients' transactions, meaning that the terms for each client transaction generally must be the most favorable terms reasonably available under the circumstances.[4] As a result, AMG members often must accept higher *clearing* fees for their clients to obtain lower *execution* fees.

Percentage of Respondents That Have Been Asked to Reroute Execution Business to Avoid Larger Increases in Clearing Fees				
Futures	Options	Interest Rate Swaps	FX Swaps	Credit Swaps
58%	50%	40%	25%	27%

[4] Securities Brokerage and Research Services, Release No. 34-23170 (Apr. 23, 1986); In the Matter of Kidder, Peabody & Co., Inc., et al., Investment Advisers Act Release No. 232 (Oct. 16, 1985); Securities Exchange Act Release No. 12251 (Mar. 24, 1976); Securities Exchange Act Release No. 9598 (May 9, 1972).

3. AMG members are being asked to agree to a cap (*i.e.*, a limit on their clients' use of derivatives) on outstanding positions.

Percentage of Respondents That Have Been Asked to Agree to a Cap on Outstanding Positions				
Futures	Options	Interest Rate Swaps	FX Swaps	Credit Swaps
33%	30%	50%	13%	55%

4. Some AMG members have been forced by their clearing firm to terminate clearing relationships (and seek clearing elsewhere, if possible).

Percentage of Respondents That Have Terminated Clearing Relationships Involuntarily				
Futures	Options	Interest Rate Swaps	FX Swaps	Credit Swaps
8%	10%	30%	25%	18%

5. AMG members' clients are being charged higher fees for posting initial margin, particularly when such margin is posted in the form of cash.[5]

	Percentage of Respondents That Have Been Charged Increased Fees for Posting Initial Margin				
	Futures	Options	Interest Rate Swaps	FX Swaps	Credit Swaps
Cash	42%	40%	40%	13%	27%
Securities	17%	10%	20%	0%	9%

6. AMG members' clients are relinquishing to their clearing firms a greater portion of income from the reinvestment of posted initial margin, particularly for margin posted in the form of cash.

	Percentage of Respondents That Have Relinquished to Their Clearing Firms a Greater Portion of Income from the Reinvestment of Posted Initial Margin				
	Futures	Options	Interest Rate Swaps	FX Swaps	Credit Swaps
Cash	33%	30%	30%	25%	27%
Securities	8%	10%	10%	0%	9%

7. These impacts have been more pronounced for lower-frequency trading strategies. AMG members typically employ lower-frequency trading strategies, whereas hedge funds and high frequency traders typically employ higher-frequency trading strategies.

	Percentage of Respondents That Have Experienced More Significant Impacts Based on Frequency of Trading Strategy				
	Futures	Options	Interest Rate Swaps	FX Swaps	Credit Swaps
Lower	33%	40%	30%	25%	27%
Medium	25%	30%	30%	25%	27%
Higher	9%	11%	20%	14%	18%

8. These impacts have also been more pronounced for directional trading strategies. "Directional" means that individual trades with the clearing firm tend to take a

[5] Under U.S. Generally Accepted Accounting Principles, cash initial margin posted to a clearing firm is often reflected on the clearing firm's balance sheet, which adds to the clearing firm's total leverage exposure under the Basel Leverage Ratio, including under the version contemplated by the Proposal.

market position and tend not to be offsetting under a netting agreement. All else being equal, the clearing firm's potential future exposure under the Basel Leverage Ratio (including under the version of SA-CCR contemplated by the Proposal) will be larger for directional trades than for non-directional trades. AMG members tend to use directional strategies because their clients use derivatives to further an investment strategy or hedge investment risks.

	Percentage of Respondents That Have Experienced More Significant Impacts Based on Directional or Market Neutral Trading Strategies				
	Futures	Options	Interest Rate Swaps	FX Swaps	Credit Swaps
Directional	33%	50%	40%	29%	27%
Market Neutral	9%	10%	20%	13%	18%

The AMG survey results show that the Basel Leverage Ratio's failure to recognize the exposure-reducing effect of segregated initial margin is already having a negative impact on AMG members' ability to hedge their clients' risks and reduce volatility. We are greatly concerned that this effect will only be magnified as the Basel Leverage Ratio becomes a binding minimum requirement.

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We appreciate the Committee's consideration of our concerns and stand ready to provide any additional information or assistance that the Committee or its Secretariat might find useful. Should you have any questions, please do not hesitate to contact Tim Cameron at (202) 962-7447 or tcameron@sifma.org or Laura Martin at (212) 313-1176 or lmartin@sifma.org.

Respectfully submitted,

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