Invested in America

March 20, 2018

The Honorable Jeb Hensarling
Chairman
House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Hensarling and Ranking Member Waters,

The Securities Industry and Financial Markets Association (SIFMA)[1] and its member firms support H.R. 4659. Offered by Rep. Blaine Luetkemeyer (R-MO) and Rep. David Scott (D-GA), this bipartisan bill would require the appropriate Federal banking agencies to recognize the exposure-reducing nature of client margin for cleared derivatives.

Completely risk-insensitive leverage capital measures, such as the supplemental leverage ratio (SLR), have become the binding capital restraints for many banking organizations. As a result, the amount of required capital is increasingly unrelated to the level of risk taken. This could lead to insufficient or excess capital levels, depending on prevailing economic conditions. One particularly problematic area is the SLR's treatment of centrally cleared derivatives. When a firm clears derivatives for a client, the firm guarantees the client's obligations to the clearinghouse, collects initial margin from the client to secure these obligations, and segregates that margin. Although this initial margin largely offsets exposure to the client and the clearing firm cannot use the margin to fund its business, the SLR does not recognize an offset for the initial margin.

Because the SLR requires clearing firms to hold capital against client exposures far in excess of the risks, it discourages client clearing and contradicts the Dodd-Frank Act's mandates to promote clearing. SIFMA supports H.R. 4659, as it would deduct client-provided initial margin on cleared derivatives from the leverage exposure for the clearing firm. We also recommend excluding from total leverage exposure all cash and cash equivalents, such as cash on deposit with central banks, U.S. Treasuries and government agency securities, and foreign sovereign debt that qualifies for a 0% risk weight under the risk-based capital rules.

Sincerely,

Dave Oxner
Head of Federal Government Relations
Securities Industry and Financial Markets Association

CC: The Honorable Blaine Luetkemeyer; The Honorable David Scott

[1] SIFMA is the voice of the U.S. securities industry. We represent the broker-dealers, banks and asset managers whose nearly 1 million employees provide access to the capital markets, raising over $2.5 trillion for businesses and municipalities in the U.S., serving clients with over $18.5 trillion in assets and managing more than $67 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.