June 13, 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] strongly supports H.R. 5749, the Options Market Stability Act, and urges its adoption. Introduced by Rep. Randy Hultgren (R-IL), this bill would rationalize Federal banking regulators' treatment of listed options positions for market makers when calculating a bank's counterparty credit risk exposure.

Listed options are an important tool used by investors to hedge their exposure in our markets and U.S. bank holding company subsidiaries play an important role clearing trades for market makers. Unfortunately for investors, bank holding companies are subject to counterparty credit rules that place risk-insensitive capital requirements on the notional amount of option positions instead of their actual exposure. Current regulations require banks to calculate charges for cleared options using the current exposure method (CEM), which is disproportionate to the actual economic exposures presented by listed options positions. Market makers routinely take offsetting positions to reduce their own risk, and accordingly, capital requirements should be calculated on a net basis to better capture the actual exposure of any given firm. Without netting, the current capital regime constrains the ability of options market makers to accumulate positions (even off-setting positions), which hinders their ability to provide liquidity.

Most investor orders are executed against market-maker quotations, and due in part to the dispersion of trading interest across hundreds of options series in a single options class, the majority of individual options series would have limited displayed liquidity if market-makers were not present. The impact of the capital regulations on liquidity is concerning to SIFMA's members because it is passed along to end-users in the form of reduced access to the listed options market, potentially reducing market stability in times of stress.

[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 $20 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).

H.R. 5749 will improve the health of the listed options market and help both retail and institutional investors hedge their positions. SIFMA urges support for this legislation.

Sincerely,

David J. Oxner
Managing Director, Head of Federal Government Relations
SIFMA

CC: The Honorable Randy Hultgren (R-IL)