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.

US Basel III Endgame and GSIB Proposal Concerns

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- 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.

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