

**Statement by FDIC Chairman Jelena McWilliams**

**on the**

**Regulatory Capital Rule: Standardized Approach for  
Calculating the Exposure Amount of Derivative Contract**

**FDIC Board Meeting  
November 19, 2019**

Robust capital requirements for the largest, most systemically important banks are a critical element of our regulatory framework. Post-crisis improvements strengthened both the quality and quantity of capital, allowing banks to better serve their customers and withstand financial and economic headwinds. To further improve the capital framework, however, it is essential that our rules are efficient, properly calibrated, and appropriately risk-sensitive.

Today, we consider a final rule to update one aspect of the capital framework – the methodology for calculating the exposure amount of derivative contracts – in a way that achieves these goals. For advanced approaches banks, the rule would replace the current exposure methodology, which the agencies first adopted 30 years ago, with a new standardized approach for counterparty credit risk, or SA-CCR. This internationally agreed-upon standard addresses new market practices developed during this period and provides improvements to risk-sensitivity and calibration relative to the current method. As a result of these changes, our capital framework will more accurately reflect risks in the derivatives market.

After receiving several helpful comments on the proposal, the final rule before us makes certain modifications to the calibration of SA-CCR. Notably, the final rule should not raise costs for commercial end-users that use derivatives to hedge or mitigate commercial risk. Relative to the proposal, the final rule removes the “alpha factor” of 1.4 for derivatives with commercial end-users. This change is consistent with the agencies’ public policy objectives and the statutory exemptions for commercial end-users from mandatory clearing and margin requirements. The final rule also adjusts the capital charge for certain energy derivatives, such as oil and gas contracts, to enhance risk sensitivity in a manner that aligns with the international standard.

Under the final rule, the largest banks must use SA-CCR to determine the exposure amount of derivatives for purposes of the supplementary leverage ratio (SLR). The final rule allows banks to recognize the risk-reducing effect of client initial margin in this calculation. This change recognizes that such margin does not belong to the bank, but typically remains the property of the client. As such, banks should not be required to hold additional capital against it.

This treatment of client initial margin is consistent with the G20 mandate to establish policies that support the use of central clearing, as well as the treatment of client-cleared derivatives under the Basel Committee’s leverage ratio standard. Although I remain concerned about risks associated with central counterparties (CCPs) – which warrant continued monitoring – the

agencies believe that central clearing through CCPs generally reduces the effective exposure of derivatives.

Finally, it is important to emphasize that the final rule will not materially change the amount of capital in the banking system. Any change in a particular bank's capital requirements – either through an increase or decrease in regulatory capital – would reflect the enhanced risk-sensitivity of SA-CCR as well as market conditions. At the same time, the rule will improve the overall efficiency of the capital framework.

I am pleased to support this rule. I would like to thank the staffs at the OCC and Federal Reserve who worked on it, and in particular I would like to thank the staff of the FDIC for all of their hard work on this rulemaking.