FDIC Federal Deposit Insurance Corporation

FACT SHEET

Financial Regulators Issue Rule Amending Margin and Capital Requirements for Covered Swap Entities

- In 2015, the Federal Deposit Insurance Corporation, the Federal Reserve Board of Governors, the Office of the Comptroller of the Currency, the Federal Housing Finance Agency, and the Farm Credit Administration (the "agencies") issued a final rule requiring banks and other entities that engage in swaps activities (referred to as "covered swap entities") to exchange initial and variation margin with their counterparties for swaps that are not centrally cleared.

- Since 2015, the agencies' supervisory experience has shown that banking organizations use inter-affiliate swaps for internal risk management purposes by transferring derivatives exposures to a centralized risk management function. In addition, after the rule was finalized, the largest firms have made significant progress implementing resolution strategies designed to recapitalize subsidiaries as protection against the types of affiliate failures envisioned under the rule.

- In light of this experience and to provide covered swap entities flexibility regarding the internal allocation of collateral, the agencies are issuing a final rule designed to facilitate prudent risk management while also protecting safety and soundness:

    - **Facilitate Prudent Risk Management** – The rule facilitates the ability of banking organizations to use inter-affiliate swaps to centralize risk management of their derivatives exposures by modifying the requirement that a covered swap entity collect initial margin from affiliates. Under the rule, a covered swap entity is not required to collect initial margin from affiliates when the aggregate amount of such initial margin is less than 15% of the covered swap entity's tier 1 capital.

    - **Protect Insured Depository Institutions** – The rule protects the Deposit Insurance Fund by preventing banking organizations from transferring significant levels of risk to insured depository institution subsidiaries. Specifically, the rule requires that, if the aggregate amount of initial margin for inter-affiliate swaps exceeds 15% of a covered swap entity's tier 1 capital, the covered swap entity would be required to collect initial margin on all new contracts with affiliates.

    - **Maintain Safety and Soundness** – The rule maintains key safeguards to protect safety and soundness by requiring covered swap entities to exchange variation margin with affiliates to reflect the change in value of each party's obligations over the life of each contract. In addition, the rule does not amend the requirement that a covered swap entity exchange initial and variation margin with unaffiliated counterparties.

- The rule also amends the requirements for covered swap entities by (1) facilitating the transition away from interbank offered rates (IBORs) and other interest rates that are expected to be discontinued or that are determined to have lost their relevance as a reliable benchmark due to significant impairment, and (2) adding an additional initial margin compliance period for certain smaller counterparties.

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