

December 8, 2016

Department of the Treasury/Office of the  
Comptroller of the Currency  
**[Docket No. OCC-2011-0008/RIN 1557-  
AD43s]**

Farm Credit Administration  
**[RIN 3052-AC69]**

Board of Governors of the Federal  
Reserve System  
**[Docket No. R-1415/RIN 7100 AD74]**

Federal Housing Finance Agency  
**[RIN 2590-AA45]**

Federal Deposit Insurance Corporation  
**[RIN 3064-AE21]**

Commodity Futures Trading Commission  
**[RIN 3038-AC97]**

Addresses listed in Annex I

Re: Request for Clarification regarding Approval Process for Additional Risk Factors

Ladies and Gentlemen,

The US Regulators have requested changes to the SIMM model; specifically, the addition of risk factors to better reflect four product types: cross-currency basis swaps, inflation swaptions, equity dividend swaps and CDO tranches.

As discussed during the November 17<sup>th</sup> meeting of the ISDA SIMM Governance Forum and the US Regulators, the timeline for making these changes is very tight. The International Swaps and Derivatives Association<sup>1</sup> (“ISDA”) appreciates your clarification that there will not be individual firm-level examinations before these changes can go into production.

ISDA also understands that individual firms must conduct suitable due diligence internally before they can use the revised SIMM. However, members of the ISDA SIMM Governance

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<sup>1</sup> Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 850 member institutions from 67 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's web site: [www.isda.org](http://www.isda.org).

Forum are concerned that lengthy internal review processes at the firm level could cause delay and potentially create a fragmented or incoherent usage of SIMM. It would be regrettable if some firms were approved to use the revised SIMM on a particular date, while other firms were prohibited from doing so because their internal approval processes were still ongoing. Separate, firm –level processes may yield different firm-specific outcomes and firm-specific modifications to the SIMM which could be different or contradictory. ISDA would prefer for all firms to use the same version of SIMM at the same time, and for this version to be agreed with regulators in keeping with the Regulators’ direction that firms must use the current version of SIMM as described by ISDA unless otherwise directed by the US Regulators.

In furtherance of this objective, ISDA respectfully proposes the following approval scheme:

- ISDA prepares industry-wide testing and documentation on the conceptual soundness of the model changes;
- Regulators review the ISDA evidence;
- Firms validate internally that they have implemented the new model correctly, that the new risk factors are correctly calculated;
- Firms confirm that their existing, ongoing monitoring and governance processes will apply to the new trades and risk factors;
- Individual firms rely on the central ISDA evidence for conceptual soundness of the changes; and
- Firms perform additional testing on some of their own portfolios, in addition to the central ISDA testing, where they have concerns that those portfolios require specific additional testing.

The objective is to achieve proper testing of the model while avoiding lengthy duplication of conceptual soundness testing. Firms will remain free to conduct whatever internal testing they deem appropriate, but they will not be obliged to duplicate the central conceptual soundness testing.

The industry is committed to implementing the requested changes to the SIMM as effectively and efficiently as possible and a coherent and feasible approval process for agreeing these changes among the US Regulators, ISDA and member firms is needed.

ISDA appreciates the opportunity to make this proposal and requests confirmation that this proposed approval scheme is a valid and satisfactory approach for use by firms.

Thank you for your consideration and please contact us if you have any questions.

Sincerely,



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**Annex I**

**ADDRESSES**

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<p>Robert deV. Frierson, Secretary Board of Governors of the Federal Reserve System 20th Street and Constitution Avenue, NW Washington, DC 20551 cc: Sean D. Campbell</p>	<p>Barry F. Mardock, Deputy Director Office of Regulatory Policy Farm Credit Administration 1501 Farm Credit Drive McLean, VA 22102-5090</p>
<p>Robert E. Feldman, Executive Secretary Federal Deposit Insurance Corporation 550 17th Street, NW Washington, DC 20429 cc: Bobby Bean</p>	<p>Christopher Kirkpatrick Secretary of the Commission Commodity Futures Trading Commission Three Lafayette Center, 1155 21<sup>st</sup> St. NW Washington DC 20581</p>