From:	Darryl Blakey
To:	Leonova, Irina S.
Subject:	[EXTERNAL MESSAGE] RE: [SA-CCR] follow-up request
Date:	Friday, May 10, 2019 4:50:03 PM
Attachments:	image001.png

Hello Irina,

Again, I want to thank you and your colleagues from the Fed and OCC for taking the time to get on a call with me this week to discuss NCBA's point of view on the standardized approach for counterparty credit risk (SA-CCR). As we wrapped up our call, you asked for some additional details that I try to address below and hope that you share with your colleagues.

As I said on our call, it's not practical for me to gather the proprietary details of the thousands of private businesses that NCBA represents. However, I can confidently tell you we represent all segments of the U.S. beef industry, and their business practices vary across the regions of the country. Therefore, NCBA members will be impacted by this rule change regardless of the breakdown of their activity in derivatives that are either cleared or uncleared.

As we discussed, although replacing the current exposure methodology (CEM) with SA-CCR would be an improvement, both CEM and SA-CCR overstate clearing members' leverage exposure because neither method properly considers the risk-reducing effect of segregated client margin. Therefore, unless SA-CCR is recalibrated to account for this market reality, its implementation, without modification, would continue to have adverse effects on clearing members and their end-user clients.

Since the financial crisis, the number of futures commission merchants (FCMs) has been declining across the country, due in part to regulatory changes and their resulting costs. The decline in FCMs has made it more difficult and more expensive for NCBA members to access uncleared derivative markets, leading to their inability to hedge a variety of risks they face. If implemented as is, SA-CCR threatens to: (a) undermine the clearing and margin exemptions granted to end-users, like NCBA members; (b) increase our costs to hedge; (c) lead to further FCM consolidation; and (d) lead to liquidity concerns and more volatile markets.

I respect and acknowledge the work that the prudential regulators have in ensuring that the U.S. financial system has properly calibrated capital requirements, and we encourage the shift from CEM to SA-CCR. However, we would support refinements, such as those outlined above, to the proposed rule that would protect end-users' access to cleared and uncleared commodity derivative contracts.

Sincerely,

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