
Chief Counsel's Office Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E-218
Washington, D.C. 20219
Docket No. OCC-2023-0008

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551
Docket No. R-1814; RIN 7100-AG64

James P. Sheesley, Assistant Executive Secretary
Attention: Comments/Legal OES (RIN 3064-AF29)
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429

16 January 2024

Dear Sir or Madam

RE: US Basel III endgame proposals

I am writing to you on behalf of The Investment Association (IA), the trade association representing the UK investment management industry. The UK asset management industry is the largest in Europe and the second largest globally.

The IA is writing to comment on the implementation of the final components of the Basel III capital standards as proposed by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (the Agencies).

The IA is supportive of regulatory efforts to improve the stability of financial markets and welcomes the progress that has been made in this area over the last fifteen years. Indeed, the IA considers that many of the most pressing risks identified in 2008 and afterwards have already been addressed by steps subsequently taken by regulators. We note for example the resilience demonstrated by the banking sector during the COVID-19 shock, as a result of the capital reforms that had been introduced.¹

The IA would not typically comment on proposed regulation related to capital requirements applicable to the banking sector. We are concerned however about the broader market impacts where the US proposals make US banking entities uncompetitive by imposing significantly higher capital requirements than will be imposed

¹BIS, "[Basel Committee's reforms helped cushion the impact of COVID-19 shock on banks](#)"

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in the EU or UK. This is likely to negatively impact US banks' competitiveness and the leading role that the US banking industry plays globally. This is because it will make trading with US dealers more expensive, reducing returns for UK asset managers and their global clients, restricting liquidity and capacity and ultimately forcing our member firms to turn elsewhere when trading and buying service.

In particular:

1. **The Agencies should reconsider the overall calibration of the US capital framework against the UK and EU proposals.** For example, the Agencies expect that the proposal would require US banking organizations to hold 16% more capital relative to their current requirements.² In contrast, the UK and EU expect their Basel III endgame proposals to increase capital requirements by 3.2% and 9.9%.³
2. **Credit valuation adjustment (CVA) risk capital requirements should not be applied to client-facing cleared derivative agency exposures** (a banking organisation's exposure to a client associated with clearing where the banking organization is acting as an agent on behalf of that client). US banks currently play a major role in providing clearing services to clients internationally. If the rules were implemented in the current form, some US banking entities are more likely to exit this market, potentially creating a significant supply/demand imbalance. A lack of sufficient clearing member supply to support client clearing will make the clearing framework more fragile and potentially increase systemic risk. Any exit of US clearing banks from providing client clearing services would increase concentration risk to a small number of clearing banks which may become too big to fail, and indeed porting is unlikely to be successful in the event of default or exit of one of those banks if the clearing market becomes even more concentrated.

We note that the Agencies' proposal comes at a time when the EU is looking to force relocation of clearing involving at least one EU party into the EU. The US rule change therefore risks additional movement of clearing from US to EU.

3. **Lower risk weight should be applied to pension plans and non-financial counterparties for CVA calculations globally (including US, EU and UK).** It is important to note that authorities in the EU have exempted pension funds and non-financial counterparties from CVA risk capital requirements.⁴ In the UK, authorities provide reduced risk weights for pension funds. The US rules should also implement a more proportionate approach to CVA in order for US banks to remain competitive and carry on trading with these counterparty groups, both in the US and globally.
4. **Investment funds, pension plans and other similar end-users (in the UK, US, Europe and globally) with a local statutory or regulatory reporting requirement should benefit from a lower risk weights similar to investment grade corporates.** Such entities are typically of high credit quality and are prudently regulated but do not usually have publicly listed securities to receive a rating and therefore would not qualify for the lower (65%) risk weighting for investment grade corporate exposures. As an example, UCITS funds are subject to a high level of transparency, such as publishing daily net asset value, and strict controls on investments and risk.
5. **Minimum haircuts should not be imposed on securities financing transactions (SFTs).** Only the US is proposing to introduce minimum haircut floors on uncleared SFTs (including repurchase transactions and securities lending), the UK and EU are still considering whether floors are an efficient way to address the issue of leverage, taking into account data being collected under SFT reporting rules. We suggest this rule should only be considered if and when there will be consistency

² 88 Fed. Reg. at 64169.

³ Bank of England, PS17/23 – Implementation of the Basel 3.1 standards near-final part 1, 1.16.

⁴ Eur. Comm'n, *Regulation (EU) No 648/2012 of the Eur. Parliament and of the Council of 26 June 2013 on Prudential Requirements for Credit Institutions and Investment Firms and Amending Regulation (EU) No 648/2012* Art. 382 pt. 4(b) (exempting pension scheme arrangements from CVA risk capital calculations); *see also* Eur. Comm'n, *Regulation (EU) No 648/2012 of the Eur. Parliament and of the Council of 4 Jul. 2012 on OTC Derivatives, Central Counterparties and Trade Repositories*, Art. 2 pt. 10 (defining the scope of "pension scheme arrangement").

with other major jurisdictions, including the UK and EU. If the Agencies do decide to implement before seeing if the UK and EU will adopt a similar approach, then the existing proposed carve outs for US fund types and foreign equivalents should be extended to cover foreign public funds.

We are grateful to the Securities Industry and Financial Markets Association Asset Management Group (SIFMA AMG) for raising many of the points above and in greater detail.

We welcome this opportunity to provide feedback and would be delighted to engage further with regulators on this topic and to answer any questions you may have.

Yours sincerely



Galina Dimitrova
Director, Investments & Capital Markets