David A. Stawick, Secretary
Commodity Futures Trading Commission
1155 21st Street, NW
Washington, DC 20581

Jennifer J. Johnson, Secretary
Board of Governors of the Federal
Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Robert E. Feldman, Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Alfred M. Pollard, General Counsel
Federal Housing Finance Agency
Fourth Floor, 1700 G Street, NW
Washington, DC 20552

Gary K. Van Meter, Acting Director
Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102

October 9, 2012

RE: Proposed Rules regarding Swap Margins

Dear Recipients,

The Nordic Investment Bank ("NIB") is submitting this letter in response to the Commodity Futures Trading Commission's ("CFTC" or "Commission") proposed rules on margin requirements[1] (the "CFTC Release") and the prior request by several regulatory agencies[2] (the "Agencies") for comments on proposed rules (the "Proposed Rules" and together with the CFTC Release, the "Margin Regulations")[3] under Section 731 and 764 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") governing margin and capital requirements applicable to swap dealers and major swap participants. NIB also refers to the letter sent by it on August 2, 2011 to the Commodity Futures Trading Commission and the Securities and Exchange Commission regarding the applicability of the Dodd-Frank Act to NIB ("NIB's Letter").

Although this letter is submitted on behalf of NIB only, NIB sees that the issues brought forward in the letter apply in general terms to international financial institutions (also referred to as multilateral development banks, "MDBs"). NIB is, like the other MDBs, expressing its concerns regarding the application of the Margin Regulations to uncleared swaps. NIB requests respectfully that the Margin Regulations would not be imposed on NIB. NIB uses swaps as an instrument for risk mitigation and cost lowering effects in its operations (as described below). NIB wishes to emphasize that it is therefore not in its view necessary to apply the Margin Regulations to NIB for ensuring safety and soundness of its swap counterparties and NIB wishes further to emphasize that as an MDB it does not in its opinion constitute a systemic risk to the U.S. financial system.

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[1] Margin Requirements for Uncleared Swaps for Swap Dealers and Major Swap Participants, 76 Fed. Reg. 23732 (April 28, 2011) (Notice of Proposed Rulemaking).
[2] The Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency and the Farm Credit Administration.
[3] Margin and Capital Requirements for Covered Swap Entities, 76 Fed. Reg. 27564 (May 11, 2011) (Notice of Proposed Rulemaking).

Further, NIB wishes in particular to refer to the comment letters of the European Investment Bank and the Council of Europe Development Bank, and respectfully requests that the CFTC and the Agencies extend the analysis put forward by the MDBs also to NIB, and exclude NIB and other MDBs from the application of the Margin Rules, irrespective of the United States not being a member of NIB.

1. Background

1.1 Legal Status

NIB was established as an international financial institution to provide medium and long-term loans and guarantees pursuant to the agreement to that effect between its member states regarding the establishment of NIB, which was signed on December 4, 1975. The agreement between the member countries have been thereafter replaced twice with a new agreement and the agreement and thereto pertaining statutes currently in force was signed February 11, 2004 (the "Constituent Documents")[4]

NIB is as an international organisation governed by its Constituent Documents under public international law. The Constituent Documents vest NIB with certain immunities and privileges common to MDBs, such as immunity from interim court orders, injunctive reliefs and other pre-judgement remedies, inviolability of premises and archives, protection from search and seizure of its property and assets and exemption from taxes, payment restrictions and credit policy measures. As an international organisation, the Bank has independent decision-making and supervisory bodies.

1.2 Operational activities

NIB promotes sustainable growth of its member countries by providing long term complementary financing to projects that strengthen competitiveness and enhance the environment in the member countries as well as in the countries of operation. Having eight (8) member countries, NIB operates also outside its membership area.[5]

The Constituent Documents of NIB expressly establish that its financing shall be based on *sound banking principles.*[6] According to its Constituent Documents, NIB's lending activities are capped by a gearing ratio of a total amount equivalent to 250 per cent of the authorised capital stock and accumulated general reserves.[7] Currently, NIB's total subscribed capital amounts to EUR 6,141.9 million (USD 7,940.1 million)[8]. As of December 31, 2011, the loans outstanding amounted to EUR 14,152.9 million (USD 18,312.4).

NIB's primary source for funding consists of issuing bonds on the main capital markets of Europe, Asia and the United States of America. The objective is to raise funds at a favourable cost to

[4] Agreement between Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden concerning the Nordic Investment Bank and thereto pertaining Statutes of February 11,2004.

[5] NIB has entered into framework agreements with non-member countries worldwide. These countries expressly acknowledge NIB's status as an international financial institution and thereto related immunities and privileges in the agreements.

[6] Article 1 of the Agreement and, correspondingly, Section1 of the Statutes.

[7] Section 7 of the Statutes.

[8] Convenience translations into USD as of December 31, 2011: 1 EUR = USD 1.2939.

enable lending on competitive terms to the Bank's customers. The Bank seeks to take advantage of favourable market conditions, adapting its borrowing operations to investor preferences in terms of currency, maturity, liquidity and structures. Within this strategy, the objective is to raise funds at the lowest possible cost while taking into consideration the risks involved in the structure and complexity of the individual transactions. As of December 31, 2011 NIB's outstanding funded debt amounted to EUR 18,432.1 million (USD 23,850.1). On the basis of a non-action letter issued by the Securities and Exchange Commission ("SEC") on December 30, 1981 NIB has registered debt securities with the SEC under Schedule B to the Securities Act of 1933, which is applicable to foreign governments or political subdivisions thereof.

Potential mismatches between the terms of funding and lending transactions are taken into consideration. For these reasons, the proceeds from the issues are converted in the derivatives markets in order to best manage the foreign exchange, interest rate and refinancing risks on the balance sheet[9].

2. Request for Exemption from the Proposed Margin Regulations

In order to protect NIB from market risks that arise as an inherent part of its funding and lending activities, NIB enters into swap transactions. The net effect of the swap hedging is to convert the funding and lending transactions to floating rates. According to NIB's Financial Policies document established by its Board of Directors, representing the eight member countries, NIB may use derivate instruments for hedging purposes, not for speculative purposes or for the purposes of maximizing financial gain. This principle is common with the other MDBs as well.

If the Margin Regulations were adopted as currently proposed, NIB would (as other MDBs) be required to post margin on swaps entered into with counterparties registered as swap dealers or major swap participants. This kind of a solution would result in reduced efficiency, while increasing the operations costs of NIB's lending activities, which would reduce NIB's ability to fulfil its established purpose and mandate. NIB would not be able to provide its current level of financing to support its mandate without its existing hedging strategy.

As has been expressed by other MDBs, also NIB does not believe that the application of the Margin Regulations to NIB would serve to reduce systemic risk or protect the market participants. On the contrary, NIB is a highly creditworthy institution that holds the highest possible credit rating by Standard & Poor's and Moody's and that due to its legal status, foundations for operations and prudent risk management policies imposes no systemic risk to the financial system of the U.S. stemming from its uncleared swap transactions. At present, with the highest credit rating attributed to it and due to its status as an MDB, NIB is not required by law or any regulation to post collateral on its swap transactions.

NIB's, as well as the other MDBs', special status and high credit worthiness has been acknowledged in various regulatory rules. By way of example, NIB is zero per cent risk weighted under the rules of the Basel Committee on Banking Supervision (standardized approach). Further, the regulatory authorities responsible for the establishment of bank capital requirements for exposure to transactions with MBDs, namely the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, have

[9] The Statutes of NIB, Section 10 e) reads as follows: *"The Bank shall, to the extent practicable, protect itself against the risk of exchange rate losses."*

proposed that NIB and the other MDBs should be assigned a zero per cent risk weighting, indicating the lowest possible risk of a default by NIB.[10]

Moreover, the European Market Infrastructure Regulation ("EMIR") excludes NIB and other MDBs from the clearing obligations required for transactions in standardized derivatives instruments, including the posting and collecting of margins. For the purposes of international harmonisation, the EMIR approach should in NIB's view be taken into account.

As a conclusion, when considering the current proposal for Margin Regulations, NIB respectfully requests in light of what is presented above and previously by the other MDBs, that the CFTC and the Agencies exclude NIB and the other MDBs from the application of the proposed Margin Regulations and adhere to the principles of reciprocity and international harmonization, in addition to furthering the international harmonization of derivatives regulation as set forth in section 752(a) of Dodd-Frank.

Thank you in advance for your consideration of this letter. Please do not hesitate to contact us if you have any further quests or are in need of additional information,

Yours Sincerely,

NORDIC INVESTMENT BANK

Lars Eibeholm
Vice President
Head of Treasury

Heikki Cantell
General Counsel
Head of Legal Department

[10] Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System and Federal Deposit Insurance Corporation, Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements (June 12,2012); proposal to apply a zero per cent risk weight to exposures to MDBs, including specifically NIB and emphasising the high credit quality of MDBs.