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July 15, 2024

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, D.C. 20551

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

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street S.W.
Suite 3E-218
Washington, D.C. 20219

Re: Regulatory capital rule: Amendments applicable to large banking organizations and to banking organizations with significant trading activity

Federal Reserve: Docket No. R-1813, RIN 7100-AG64
FDIC: RIN 3064-AF29
OCC: Docket ID OCC-2023-0008

Dear Sir/Madam,

We appreciate the opportunity to provide further considerations that go beyond our letters submitted to the Agencies on January 16th, 2024 (**"January Letter"**)[1], April 8th, 2024 (**"April Letter"**)[2], and May 30th, 2024 (**"May Letter"**)[3] in relation to the above-referenced proposal (the **"Proposed Rulemaking"**)[4]. Specifically, below we provide an additional proposal for the calculation of GIRR curvature.

[1] Letter from ISDA and SIFMA to the Agencies (January 16, 2024), *available at* https://www.isda.org/a/1ElgE/ISDA-and-SIFMA-Response-to-US-Basel-III-NPR.pdf

[2] Addendum Letter from ISDA and SIFMA to the Agencies (April 8, 2014), *available at* https://www.isda.org/a/q8wgE/ISDA-SIFMA-Basel-III-Endgame-Comment-Letter-Addendum.pdf

[3] ISDA and SIFMA Submit Additional Proposals for US Basel III NPR Letter (May 30, 2024), *available at* https://www.isda.org/a/r41gE/ISDA-SIFMA-Basel-III-Endgame-Comment-Letter-Partial-LTA.pdf

[4] Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity, 88 Fed. Reg. 64,028 (Sept. 18, 2023)

GIRR Curvature

The Associations are concerned that the capital treatment of general interest rate risk (GIRR) curvature under the standardized approach to the Fundamental Review of the Trading Book (FRTB-SA) as per the Proposed Rulemaking is inconsistent with the Basel Text and the implementation by other jurisdictions.

Basel Text

In the Basel Text[5], there is a clear statement in the curvature risk factor definition in MAR21.8(5)(a) that suggests that all curves for a given currency within GIRR must be shifted simultaneously:

(5) Curvature GIRR:

> *(a) The GIRR curvature risk factors are defined along only one dimension: the constructed risk-free yield curve per currency with no term structure decomposition. For example, the euro, Eonia, three-month Euribor and six-month Euribor* ==curves must be shifted at the same time== *in order to compute the euro-relevant risk-free yield curve curvature risk capital requirement. For the calculation of sensitivities, all tenors (as defined for delta GIRR) are to be shifted in parallel.*

To paraphrase what is written above, the Basel Text specifies that, in the computation of GIRR curvature, all interest rate curves within the same currency are shifted at the same time, with all tenors shifted in parallel. As such, no intra-bucket correlation would apply within the GIRR curvature charge.

CRR3 Text

We would note that other jurisdictions have implemented this provision in line with the above understanding of the Basel Text. In particular, section 9 of article 325l of the capital requirements regulation (CRR)[6] of the European Union (EU) says that:

For the purposes of the curvature risk, institutions shall consider vectors corresponding to different yield curves and with a different number of components as the same risk factor, provided that those vectors correspond to the same currency."

General Comments

The Proposed Rulemaking does not contain the Basel Text's language specifying that "curves must be shifted at the same time" and only refers to parallel tenor shifts. Specifically, we would

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[5] Basel Committee, *Minimum capital requirements for market risk* (January 2019), *available at* https://www.bis.org/bcbs/publ/d457.pdf
[6] Interactive Single Rulebook (Article 325l | European Banking Authority (europa.eu))

note that the curvature correlation section in § _.209(d)(3)(i) mentions the existence of different GIRR curvature risk factors given these risk factors are aggregated using a correlation parameter:

(i) Except as noted in paragraph (d)(3)(vi) of this section, for the risk class of interest rate risk, the curvature risk correlation parameter, ρ_{kl}, equals 99.8 percent where risk factors k and l relate to ==different interest rate curves== and 100 percent otherwise;

Therefore, the Proposed Rulemaking could be interpreted as suggesting that banks classify each interest rate curve as a separate curvature risk factor and shift each curve independently, which would create a material divergence from the Basel Text and the rules in other major jurisdictions. The Proposed Rulemaking does not provide any reason for this deviation, and the Associations believe it would be prudent to avoid the additional complexity introduced by a requirement to independently shock different curves within a currency. Instead, the Associations propose that in this instance, the Proposed Rulemaking should align with the Basel text and the implementation in other jurisdictions. Additionally, it is worth mentioning that the approach in the Proposed Rulemaking may result in higher or lower capital outcomes depending on the portfolio. For example, portfolios with long gamma curve positions may result in lower capital outcomes compared to the Basel Text.

Proposal

We propose the following revisions to the rule text in relation to section § _.208(b)(3):

(3) Curvature risk factors for interest rate risk. The curvature risk factors for interest rate risk are defined along one dimension, the relevant interest rate curve, per currency, where term structure is not recognized. To calculate curvature scenarios, a [BANKING ORGANIZATION] must shift all tenors provided in paragraph (b)(1)(i)(B) of this section, in parallel and all curves for a given currency simultaneously. There is no curvature capital requirement for inflation risk and cross-currency basis risks.

In conjunction with the above change, section § _.209(d)(3)(i) should be deleted as it is not applicable:

(i) Except as noted in paragraph (d)(3)(vi) of this section, for the risk class of interest rate risk, the curvature risk correlation parameter, ρ_{kl}, equals 99.8 percent where risk factors k and l relate to different interest rate curves and 100 percent otherwise

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Conclusion

The Associations appreciate the opportunity to submit additional comments on the Proposed Rulemaking. If you have any questions, please contact Lisa Galletta at lgalletta@isda.org or ███████████ and Guowei Zhang at gzhang@sifma.org or ███████████.

Very truly yours,

Lisa Galletta
Head of U.S. Prudential Risk
International Swaps and Derivatives
Association, Inc.

Guowei Zhang
Managing Director, Head of Capital Policy
SIFMA