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4th February 2011

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel, Switzerland
Sent by email to: baselcommittee@bis.org

Re: Basel Committee on Banking Supervision Consultative Document: Capitalization of bank exposures to central counterparties ("CCPs")

Dear Secretariat:

This letter contains the response of the British Bankers Association ("BBA"), the Global Financial Markets Association ("GFMA"), the Institute of International Finance ("IIF"), and International Swaps and Derivatives Association, Inc[1]. ("ISDA") (together, the "Associations") to the Basel Committee on Banking Supervision's (the "Committee") proposed Basel III reforms as set out in the Committee's consultative document.

The Associations commend the Committee for its consideration of the issues raised by the capitalization of bank exposures to CCPs. We have a number of comments on the proposals and welcome this opportunity to share these with the Committee. The Associations look forward to working with the Committee in advancing this work with a view to reducing risk and fostering financial stability.

At the outset, the Associations wish to emphasize three points that inform our comments throughout the discussion that follows.

First is *the importance of the incentive structure arising from the capital rules for exposures to CCPs*. CCPs have been broadly promoted as a key tool in mitigation of counterparty credit risk in the OTC derivatives market. Some authorities wish to increase the use of CCPs, while quite correctly appreciating that CCPs must themselves be

[1] A description of the Associations is set out in the Annex.

subjected to very high risk management standards. This is important as the movement of contracts to a CCP is not a panacea itself, since it also concentrates counterparty and operational risk. Best-practice risk management, a sound regulatory framework, extensive disclosure, and thorough, ongoing oversight are necessary to ensure that CCPs will indeed reduce risk. In this context, the capital framework is key. If it incentivizes Clearing Members to charge higher levels of margin than is required to prudently cover the risks they face, then two undesirable effects may result:

- This high level of margin will likely be applied to clients. This in turn will result in a system wide liquidity drain, with many clients being required to clear but having severe difficulty in funding the required margin.
- There will be a disincentive to use central clearing where it is not mandatory as institutions will understand that margin levels are too high.

Moreover, if an artificially and unnecessarily high level of margin is needed for default fund contributions to achieve a non-punitive capital treatment, then there is an incentive to reduce the size of these default fund contributions. This is clearly not of systemic benefit. We would therefore strongly urge the Committee to adopt a proportionate and risk-sensitive treatment in the capital rules for bank exposures to CCPs.

Second is *the importance of an integrated analysis of the risks that are managed by clearing houses and their participants.* The capital held by participants in support of the risks they assume is only one of multiple elements that will determine whether these arrangements achieve the objective of reducing systemic risk. It is therefore critical that these reform proposals are developed by the Committee in an active dialogue with the industry, the Committee on Payment and Settlement Systems ("CPSS") and the Technical Committee on the International Organization of Securities Commissions ("IOSCO") (collectively "CPSS-IOSCO"), and other stakeholders. Given the global nature of the OTC derivatives market, coordination is essential to effectively establish international minimum risk management standards, avoid regulatory arbitrage, and mitigate systemic risk and adverse spillover across countries. In particular, we believe that further development of these proposals by the Committee should be jointly coordinated with the anticipated release and consultation on revised international standards for derivatives clearing houses by CPSS-IOSCO. Liaison with individual CCP regulators is also a prerequisite for the construction of an effective harmonized international framework for the supervision of OTC derivatives markets, trading, risk and infrastructure.

Third is *the need to recognize the dynamic nature of market developments with respect to CCPs*, including their structure, design, membership, and risk management practices. It is critical that the Committee's work in this area be based on a solid foundation of guiding principles which can be applied broadly as these structures evolve. In this regard, we are concerned about the absence of information from the Committee on how the proposed reforms would interact with other regulatory initiatives impacting on clearing and/or the derivatives markets, including the United States' Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") and the European Union's Regulation on

OTC derivatives, central counterparties and trade repositories ("EMIR"). This is a concern as diverse and inconsistent requirements between different supervisors will increase costs and make it less likely that robust international standards can be developed. Close international cooperation between various supervisory bodies including bank, CCP, and systemic risk supervisors would mitigate these risks, with key standards being set and interpreted at the international rather than the national level.

Further, with the efforts being made to increase the use of OTC derivatives CCPs, effective CCP regulation, prudential supervision and oversight are critical. At a domestic level, there should be a clear legal basis that assigns explicitly the role of the market regulator, prudential supervisor, and systemic risk overseer, with appropriate coordination and division of competencies. In addition, due to its systemic importance, a CCP should have appropriately conditioned access to emergency liquidity should that become necessary. For internationally active CCPs, there should be an enhanced international framework for their prudential supervision and oversight. Furthermore, subject to appropriately conservative membership requirements, such international oversight should aim to make access to CCPs as widely available to international participants as possible. This would avoid cordoning off any part of the market, or introducing competitive distortions, whether among market participants or CCPs.

Finally, before turning to our detailed comments, we would note that a key concern of the Associations is the definition of "exposure measure". We provide detailed comments on this below and strongly urge the Committee to provide a more risk sensitive measure.

Comments on the proposed reforms

The remainder of this letter contains eleven parts covering our comments in relation to the following topics:

1. The Need for a Systemic Risk Assessment and Impact Study
2. Risk Weight for Qualifying CCPs
3. Scope of Proposals and Interaction with Other Areas of the Capital Framework
4. Bankruptcy Remoteness of Collateral and Related Issues
5. The Determination of a "Qualifying CCP"
6. Concerns over Risk Sensitivity and the CEM
7. Capitalization of Default Fund Exposures and Hypothetical Capital Methodologies
8. Unfunded Capital
9. Implications of the Proposed Reforms for Client Clearing
10. Definitional Issues
11. Technical Basel II and Basel III Implementation Concerns

1. The Need for a Systemic Risk Assessment and Impact Study

The significantly enhanced role of CCPs is designed to address important aspects of systemic risk identified during the recent crisis. This is welcomed. However the increased role of such entities and approaches also carries the risk of new forms of systemic risk. It is important that the approach to the regulation of such new forms of risk not be based on the assumption that what is necessary is the simple extension of existing capital requirements. Rather, we suggest that a comprehensive and integrated analysis of how expanded use of CCPs will alter the potential for systemic risk should be carried out. This analysis should include an open consideration of the best ways of addressing such risks, both via capital requirements on members as well as through other design elements.

We therefore urge the Committee, in conjunction with other relevant supervisory bodies, to carry out a thorough systemic risk assessment. A robust and in-depth impact assessment of micro- and macro-economic effects of the proposed supervisory framework is essential to avoid unintended consequences and to ensure that the framework achieves the desired supervisory objectives.

One element of this is the need for a well designed quantitative impact study ('QIS') on the Committee's proposals. A properly designed QIS will provide the essential information required to calibrate the proposals. To enable this, the Associations urge the Committee to continue and broaden their collaboration with the industry in the design of the QIS. Such a collaborative process will better ensure that the data gathered is sufficiently robust to support an accurate calibration of the capital standard.

We think a meaningful robust QIS process requires:

(a) More time than is proposed in the consultative document. We are concerned by the very tight deadlines of the Committee's process for this work, namely: QIS completed by July 2011; finalization of rules by September 2011. Such short deadlines are likely to substantially increase the risk of a flawed impact analysis;
(b) Greater clarity on the key data elements and requirements than is currently provided in the consultative document;
(c) Careful consideration of the scope of the exercise. While a QIS on banks' current exposures to CCPs is useful, it is important to recognize and calibrate for the implications that broad mandatory clearing requirements (resulting for instance from the Dodd-Frank or EMIR initiatives) will have on banks' capital requirements under the methodologies described in the consultative document.
(d) In particular, an assessment of the liquidity impact of the proposed reforms on end users, and on their likely behavior, to ensure that the effects of the transformation of credit risk to liquidity and the reduction in corporate hedging are understood within the context of the financial system and the broader economy.

2. Risk Weight for Qualifying CCPs

Instead of the current zero capital charge, the Committee proposes that trade exposures will receive a small but positive capital charge based on a 2% risk weight. The Associations have concerns about the appropriateness of the risk weight as it appears to have been proposed without an explanation as to the basis for the decision. Previously, in discussing counterparty risk management, the Committee said

> *"Banks' mark-to-market and collateral exposures to a central counterparty (CCP) should be subject to a modest risk weight, for example in the 1-3% range, so that banks remain cognizant that CCP exposures are not risk free*"[2].

The reason for the selection of both this range and the 2% charge is unclear. We therefore suggest that the 2% charge should be regularly reviewed to ensure that it remains appropriate and that the right incentives are provided as central clearing of OTC derivatives evolves. We note here that in the current proposal, the risk weight does not differentiate between CCPs despite the differences in individual structures and risks (as noted below).

In the absence of a disclosure of the Committee's analysis, we can only state that we think that the optimal approach should begin with consideration of the new market structure and the new risks associated with that structure, and in that context determine what capital regulation should be set and whether capital regulation is the most appropriate tool. Disclosure by CCPs also has a role. Disclosure requirements should include (but not be limited to):

- (a) CCP margin levels and calculation methodologies;
- (b) The CCP's stress test methodology and results;
- (c) Details of the CCP margin back-testing methodology (for its initial margin calculation) and results;
- (d) CCP counterparty exposures and concentrations;
- (e) All elements of the CCP's financial resources;
- (f) Volumes cleared by product;
- (g) Details of counterparty profiles;
- (h) Collateral concentrations and collateral liquidity profiles;
- (i) Waterfall details and default management practices; and
- (j) Details of other CCP risks including operational risk and any collateral management risks.

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[2] Annex of the press release about the Group of Governors and Heads of Supervision reaching broad agreement on Basel Committee capital and liquidity reform package, page 2, available at http://www.bis.org/press/p100726/annex.pdf

We note in this context that market participants require further information from CCPs to do appropriate impact analysis and credit assessments. Therefore we recommend that extensive governance and transparency requirements are imposed on CCPs to enable this work to be done.

3. Scope of Proposals and Interaction with Other Elements of the Capital Framework

Turning to the scope of the proposals, we feel that more transparency around the determination of the risk weight will also lend itself to transparently attributing benefit to the long history of sound and successful risk management evidenced by existing exchange trading platforms. The industry recognizes the importance of ascribing an appropriate risk weight, but feels that the framework has to reflect both past and prospective performance, the latter being assessed through globally harmonized and appropriate prudential supervision and regulation.

Additionally, the consultative document contains no detail on the interaction of the proposed reforms and the existing capital treatment of large exposures. The Associations think that banks' concentrated exposures to CCPs (such concentration often resulting from various legal and regulatory initiatives) should be permanently exempt from the large exposure limit, so long as the applicable CCP is a Qualifying CCP and thus complies with the current and forthcoming CPSS-IOSCO recommendations. Failure to adopt such an approach in the treatment of large exposures to CCPs would undermine the incentive effect that is otherwise being pursued. Given this public policy direction, it is an important component of the incentive structure that market participants should be able to rely upon CCPs and not be constrained by their necessarily concentrated exposures to them in such a way as to constrain their use.

4. Bankruptcy Remoteness of Collateral and Related Issues

The Committee proposes that where collateral posted with a Qualifying CCP is remote from bankruptcy of the firm holding the collateral, no additional capital charge is required for the collateral.

However, there are a number of different collateral transfer and segregation models in different jurisdictions, reflecting local law and regulatory practice. Accordingly, further clarification is required on precisely which collateral models are effective in removing the additional capital charge. In addition, information is required on precisely who has access to collateral for the purposes of liquidity, and the meaning of the terms "collateral" (as it appears that the Committee's proposal intends to capture all collateral posted) and "access". We further urge the Committee to consider third party custodial models. Clarity is needed as to the treatment if the collateral holder is not the CCP or the Clearing Member.

We suggest that clear, implementable proposals in relation to collateral should be fixed by the Committee only:

(a) Once precise collateral models and requirements have been agreed in major jurisdictions; and
(b) Once efficiency and cost issues around the different models have been duly evaluated; and
(c) After the proposals have been considered in the light of the forthcoming CPSS-IOSCO recommendations for CCPs.

Finally, the body responsible for the determination whether a given CCP's collateral model is effective in this regard should be fixed, and the process for any review of a determination (for instance arising from legal changes such as those contemplated in the proposed EU Netting Directive) should be clearly set out.

In addition to the above comments, we also note specific concerns regarding banks' ability to qualify for the 2% risk weight capital treatments for cleared exposures where the bank is a client of a Clearing Member:

(a) Paragraph 112(a) of the consultative document requires that the CCP and/or Clearing Member segregate positions and assets belonging to the client, and that such segregation should result in bankruptcy remoteness. We believe that this provision may make it impossible for affiliates to act as Clearing Members for their affiliated banking institutions, a common practice today for large financial firms. Because pooling of the collateral associated with a Clearing Member and its affiliates is common, it would appear that the proposed language may prevent banks from qualifying for the 2% risk weight capital treatment for exposures cleared by an affiliate. If end users are not subject to an appropriate capital charge then they will be subject to the disadvantages of central clearing (including increased cost and operational complexity) without one of the key benefits.

(b) Paragraph 112(b) of the consultative document requires arrangements to ensure an institution's trades will be taken over by another Clearing Member in the event a bank's Clearing Member defaults or becomes insolvent. We understand that trade portability is often allowed by a CCP at a Clearing Member's insolvency/default, but that such portability is not guaranteed. This would seem to imply that banks cannot qualify for the 2% risk weight capital treatment for their trade related exposures. We would appreciate further clarification from the Committee if this is the intended result, especially as there may also be prudential concerns with establishing a system where trade portability is guaranteed (as it would reduce the incentives for clients to exercise proper diligence and monitor the credit quality of their Clearing Member). We further assume that there is no capital requirement associated with being a 'backup' Clearing Member under a portability guarantee; assurance on this point would also be appreciated.

Finally, we note that this aspect of the proposal incentivizes segregation of client assets. However, it may be preferable not to alter the balance between the safety inherent in enhanced segregation of client collateral and the cost associated with such additional protection. At the least, consideration should be given to allowing institutional clients to opt for non-segregation. This is particularly the case given that, whether or not segregation exists, it is the effectiveness of portability that will determine whether the client is impacted by the failure of a Clearing Member.

5. Determination of a "Qualifying CCP"

The consultative document[3] suggests that the home CCP supervisor and potentially various bank supervisors have a role in determining whether a CCP is compliant with CPSS-IOSCO standards.

In general, we think that a clear, coordinated, and internationally standardized process is required here. It must be evident at all times whether a particular CCP is a Qualifying CCP, which authority makes that determination, and when that designation is subject to review.

OTC derivatives markets are highly international in nature. This international scope brings significant benefits. It is essential that as the use of central counterparties and trade repositories increases, this is done in a manner that reduces systemic risks while retaining the benefits of existing markets, such as the availability of risk management services. Inward-looking approaches which result in the fragmentation of these markets along national or regional lines are to be avoided. The work of CPSS-IOSCO should make a significant contribution in this regard. Consideration should also be given to agreed international methods for assessing the implementation of such standards, possibly building on the work of the FSB Standing Committee on Standards Implementation in this general regard.

To that end, we recommend clarity concerning the body responsible for the determination of Qualifying CCP status for the purposes of these proposed reforms. In this context, we further urge the Committee to consider the process for a cessation of a "Qualifying" designation in addition to the designation of Qualifying CCPs in recognition of the fact that this could change over time. The cessation process is of particular importance given that a sudden loss of the "Qualifying" status could cause considerable disruption, including the potential to change the economics of an already agreed financial contract. Please note in this context that the economics of a financial contract include the costs of any associated capital or margin requirements imposed by a CCP on parties to that contract. As a related matter, we ask the Committee to consider the benefits of a gradual approach to the relevant financial requirements deemed necessary when cessation of a "Qualifying" status occurs, as a sudden change in, for instance, capital requirements gives rise to both serious concerns

[3] Paragraphs 107 and 108, Annex A.

about the competitive settings among market participants and CCPs, and the potential disruption caused by the determination itself that the CCP is no longer a Qualifying CCP. Indeed, in the absence of a gradual approach, it is not difficult to imagine a "run on a CCP" if one or more members took a view that a CCP's "Qualifying" status was in doubt. This could give rise to systemic risk and thus defy the objective of the proposals.

In light of the above, we would also request that the criteria for both processes (entry to and exit from the Qualifying CCP status) be as transparent as possible. Thus we recommend the existence of an official international repository listing the Qualifying CCPs and the timing of reviews so that this information is public and readily accessible (for instance on the BIS website). We urge the national and international regulators to cooperate in these processes.

6. Concerns over Risk Sensitivity and the CEM

The risk sensitivity of the core calculations is of paramount concern in the design of capital rules. In this regard the Associations have a number of concerns with the use of the current exposure method ("CEM") (and to a lesser extent other regulatory capital approaches to counterparty credit risk) for cleared OTC derivatives:

(a) Any percentage-of-notional based approach, such as the CEM, penalizes large well-hedged portfolios versus smaller riskier ones. We consider this a highly undesirable incentive, and would strongly urge the Committee to consider approaches which do not suffer from this drawback. Note in this context that the CEM would seem to require a level of margin which is much higher than prudent well-resourced CCPs currently charge due to its risk insensitivity[4].

(b) The net portfolio risk position should always form the basic exposure measure for capital purposes (assuming that netting is enforceable in the relevant jurisdictions). Some regulatory approaches, such as the CEM, violate this principle.

(c) The holding period used in many regulatory capital approaches to bilateral counterparty credit risk is larger than the Associations consider appropriate for OTC derivatives CCPs, given their frequent margin calls. Thus the standardized method does not suffer from the issues discussed in the immediately preceding points, but it would require recalibration to reflect the shorter margin period of risk before adoption in an OTC derivatives CCP context. This is discussed further in the next section.

(d) The CEM was calibrated some years ago and has not been purpose built for credit products.

[4] To get a crude estimate of the magnitude of the portfolio effect ignored by the CEM, compare the ratio of the total margin to the total notional cleared at LCH (c. 0.5 bp) with a typical CEM haircut for IRS (50bps). This comparison indicates that a CEM-based calculation is inappropriate by more than an order of magnitude.

The issues outlined above are of fundamental importance. They demonstrate that the CEM is highly inappropriate both quantitatively and methodologically as a capital methodology for OTC derivatives CCPs. As we noted in the introduction, the incentive structure created by capital rules must be correct. The CEM does not meet this requirement. This is because it will suggest for a large well-hedged collection of portfolios (such as are typical of large CCPs) that the CCP's hypothetical capital is an order of magnitude higher than a risk sensitive calculation would. The consequence of this overstatement is that default fund contributions will be (erroneously) given a 1250% risk weight. Thus there is an incentive to reduce these contributions, and an associated increase in systemic risk.

7. Capitalization of Default Fund Exposures and Hypothetical Capital Methodologies

The Committee proposes that a bank should capitalize its default fund exposures to a Qualifying CCP according to an approach that is based on the CCP's "hypothetical capital". The approach is therefore based on CCP specific information.

The risk of a Clearing Member's default fund contribution depends critically on its position in the loss waterfall. Thus if a defaulting member's own default fund contribution is used before that of other members (as is typical), then one critical determinant of default fund risk is an individual Clearing Member's margin versus the hypothetical capital required for *its* portfolio, rather than the total margin versus total hypothetical capital. We therefore urge the Committee to make the determination of the adequacy of margin sensitive to CCP waterfall structures. We would also stress the importance of flexibility, as different waterfall structures may be developed as central clearing of OTC derivatives evolves.

An alternative to the Committee's proposal is to allow CCPs to apply for permission to use appropriately risk-sensitive models (such as an IMM model[5]) for the hypothetical capital calculation. This permission should be granted under the same standards as a bank application, with the same requirements for backtesting, hypothetical portfolio validation, and other key risk controls. It is important to emphasize that qualifying CCPs are generally expected to have very robust risk management and modeling capabilities (in order to meet the still-developing CPSS-IOSCO standards for qualifying CCPs) so this should not pose a disproportionate burden.

Another alternative for many waterfalls would be to note that since the Clearing Member's default fund contribution is at risk due to their own non performance first, a hypothetical capital calculation could be performed by comparing the capital required for the Clearing Member's portfolio with the margin for that portfolio. Since this only relies on information known to the Clearing Member, they rather than the CCP could perform the

[5] Some modifications to the IMM approach will be needed in this case, such as a review of the margin period of risk for large netting sets. If a CCP can demonstrate (through a tested, appropriately conservative default management program) that it can liquidate a large Clearing Member's portfolio within five days, then that period is an appropriate one for capital purposes.

calculation. In particular, this approach would allow for the use of risk-sensitive models in the determination of hypothetical capital, mitigating the serious concerns over the risk-sensitivity and potential mis-calibration of the CEM. (The risk of multiple Clearing Member defaults could perhaps be handled here by adjusting the risk weight on the resulting exposure.)

If the Committee wishes to adhere to its original proposal (using total margin and total hypothetical capital), then the Associations point out that there are internal departments at banks with considerable expertise and experience in the calculation of counterparty risk capital. Thus, a further possibility would be to require CCPs to provide sufficient information to allow market participants to assess their credit quality and hypothetical capital using risk sensitive methodologies.

There are clear tradeoffs between calculations performed at the level of the CCP and those performed by individual firms. In the aggregate, we can appreciate the intention to achieve greater overall accuracy by adopting CCP level calculations, although in the absence of detailed data, it is difficult to determine how material this improvement is likely to be in practice. On the other hand, many firms are concerned at the potential increase in operational risks that could arise from reliance on a third party for calculations that may be relevant to time-sensitive regulatory filings and disclosures.

We urge the Committee to consider providing flexibility in this area, at least initially, to gain more practical experience in weighing these tradeoffs. In so doing, it would be helpful if the Committee could articulate principles for the standards to be applied for the use of third party data and information as inputs to a firm's own calculations.

8. Unfunded Capital

The Committee proposes a 1.2 scalar in the hypothetical capital calculation for unfunded CCP capital. Given that historically no credit has been given for unfunded capital, we would urge the Committee to publish the rationale for taking this approach.

9. Implications of the Proposed Reforms for Client Clearing

We seek greater clarification from the Committee on how it sees the capital treatment of cleared trades that Clearing Members undertake on behalf of clients.

The consultative document is unclear on the client-to-Clearing Member leg of these transactions. We urge the Committee to clarify their intent here, both with respect to OTC derivatives clearing and the clearing of exchange-traded derivatives. The latter case is especially pertinent as the existing Basel rule states[6] that that if a product is exchange-

[6] Basel Committee on Banking Supervision (2006) *'International Convergence of Capital Measures and Capital Standards' A Revised Framework Comprehensive Version* (Bank for International Settlements: Basel, Switzerland) Annex 4, page 258, paragraph 6.

traded (which could be a proxy for sufficient liquidity) and there is initial and daily margining, then no risk weight on trade exposures is required. Clients will suffer significant liquidity demands under central clearing due to margin; any further burden due to increases in their capital requirements may not provide the right systemic incentives.

On a closely related matter, we would ask the Committee to confirm that Clearing Members are not required to apply the Basel III CVA charge to trades which they clear for clients.

10. Definitional Issues

OTC derivatives clearing models include both Agency-based and Principal-based approaches. We therefore urge the Committee to provide definitional clarity on the key term "trade exposure" under both models.

Similar comments apply to "collateral", which can be held at both the Clearing Member and the CCP in the Principal model or just at the CCP in the agent model. Moreover slightly different collateral models can sometimes be applied to initial and variation margins. Clarity over which amounts apply to which parts of the capital calculation (for both clients and Clearing Members) is required. Furthermore, since client funds can appear in the CCP loss waterfall, they must be separately considered in any capital proposal.

Finally, the term "default fund" is also subject to multiple interpretations so we urge the Committee to provide greater precision in this area.

11. Technical Basel II and Basel III Implementation Concerns

With respect to Basel II, the consultative document (paragraph 119) uses the Standardized Approach for credit risk in the main framework as a fall back mechanism for capturing the risk of transactions with a non-qualifying CCP or to a qualifying CCP that do not meet the requirements in paragraph 106. A number of jurisdictions, such as the US, have not implemented a standardized approach. While we recognize that this is an issue unique to banks in those jurisdictions, further guidance on what approach may be applied to these exposures (in the absence of a Standardized Approach) would be helpful for those banks' efforts to gauge the implications of these proposals.

Conclusion

The public policy rationale for the Committee's proposed reforms is to require banks to more appropriately capitalize their exposures to CCPs, including trade and default fund exposures. While this is an appropriate goal, and the consultative document makes an excellent start to the discussion, significantly more consultation, dialogue and open debate among affected parties is necessary to refine the proposals to be efficient, effective and proportionate to the policy goals. As stated at the outset, effective reforms require the

Committee to continue an active dialogue with the industry, CPSS-IOSCO and other stakeholders.

We appreciate the opportunity to provide these comments. Should you require further information, please do not hesitate to contact the undersigned.

Sincerely,

Simon Hills
Executive Director
British Bankers Association

David Schraa
Director, Regulatory Affairs
Institute of International Finance

David Murphy
Global Head of Risk and Research
International Swaps and Derivatives Association, Inc.

Peter Beales,
Managing Director
GFMA

Annex

British Bankers Association (BBA)

The British Bankers' Association ("BBA") is the leading association for the UK banking and financial services sector, speaking for over 230 banking members from 60 countries on the full range of the UK and international banking issues. All the major and less big commercial banks in the UK are members of our association as are the large international EU banks, the US banks operating in the UK and banks from India, Japan, Australia and China. The integrated nature of banking means that our members are engaged in activities ranging widely across the financial spectrum encompassing services and products as diverse as primary and secondary securities trading, insurance, investment banking and wealth management, as well as deposit taking and other conventional forms of banking.

Global Financial Markets Association ("GFMA")

The Global Financial Markets Association (GFMA) joins together the common interests of hundreds of financial institutions across the globe. GFMA's mission is to develop policies and strategies for global policy issue in the financial markets, thereby promoting coordinated advocacy efforts across its partner associations. GFMA is partnered with the Association for Financial Markets in Europe (AFME), the Asian Securities and Financial Markets Association (ASIFMA), and, in the United States, the Securities Industry and Financial Markets Association (SIFMA).

Institute of International Finance ("IIF")

The Institute of International Finance, Inc. (IIF) is the world's only global association of financial institutions. Created in 1983 in response to the international debt crisis, the IIF has evolved to meet the changing needs of the financial community. The IIF now serves its membership in three distinct ways:

- Providing analysis and research to its members on emerging markets and other central issues in global finance.
- Developing and advancing representative views and constructive proposals that influence the public debate on particular policy proposals, including those of multilateral agencies, and broad themes of common interest to participants in global financial markets.
- Coordinating a network for members to exchange views and offer opportunities for effective dialogue among policymakers, regulators, and private sector financial institutions.

The Institute is headquartered in Washington, D.C., and in November 2010 opened its Asia Representative Office in Beijing.

IIF members include most of the world's largest commercial banks and investment banks, as well as a growing number of insurance companies and investment management firms. Associate members include multinational corporations, trading companies, export credit agencies, and multilateral agencies. Approximately half of the Institute's members are European-based financial institutions, and representation from the leading financial institutions in emerging market countries is also increasing steadily. By 2010, the Institute's members include over 420 of the world's leading banks and finance houses, headquartered in more than 70 countries.

International Swaps and Derivatives Association, Inc. ("ISDA")

ISDA is the largest global financial trade association, by number of member firms. ISDA was chartered in 1985, and today has over 830 member institutions from 57 countries on six continents. These members include most of the world's institutions that deal in privately negotiated derivatives, as well as many of the businesses, governmental entities and other end users that rely on over-the-counter ("OTC") derivatives to manage efficiently the financial market risks inherent in their core economic activities.

Since its inception, ISDA has pioneered efforts to identify and reduce the sources of risk in the derivatives and risk management business through documentation that is the recognized standard throughout the global market, legal opinions that facilitate enforceability of agreements, the development of sound risk management practices, and advancing the understanding and treatment of derivatives and risk management from public policy and regulatory capital perspectives.