June 7, 2024

VIA ELECTRONIC SUBMISSION

Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Re: Consultative Document: Global Systemically Important Banks – Revised Assessment Framework

Ladies and Gentlemen:

The Financial Services Forum (the "Forum")[1] appreciates the opportunity to submit this letter to the Basel Committee on Banking Supervision (the "BCBS") on its consultation (the "Consultation") regarding proposed revisions to the assessment framework for capital surcharges for global systemically important banks ("GSIBs").[2] The proposed revisions would require banks in the GSIB assessment exercise to report and disclose most GSIB indicators based on an average of values rather than using year-end values. The proposed changes would apply to all of the Forum's member institutions ("member institutions"), the U.S. GSIBs.

The assessment methodology for GSIBs was first published by BCBS in July 2013.[3] In the U.S., the Board of Governors of the Federal Reserve System (the "FRB") adopted a final rule in 2015 to establish its methodology to identify U.S. GSIBs and assign each a risk-based capital surcharge.[4]

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1 The Financial Services Forum is an economic policy and advocacy organization whose members are the chief executive officers of the eight largest and most diversified financial institutions headquartered in the United States. Forum member institutions are a leading source of lending and investment in the United States and serve millions of consumers, businesses, investors and communities throughout the country. The Forum promotes policies that support savings and investment, deep and liquid capital markets, a competitive global marketplace and a sound financial system.

2 BCBS, "Consultative Document: Global systemically important banks – revised assessment framework" (Mar. 7, 2024), https://www.bis.org/bcbs/publ/d571.htm.

3 BCBS, "Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement" (Jul. 2013), www.bis.org/publ/bcbs255.htm [hereinafter, "2013 BCBS Standard"].

4 The FRB recently proposed changes to the GSIB surcharge framework in the U.S. Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15), 88 Fed. Reg. 60385 (Sept. 1, 2023).

The GSIB surcharge was designed to capture a GSIB's systemic importance, such that the GSIBs are required to hold additional capital relative to other non-GSIB banking organizations.[5]

A core objective of the BCBS regulatory framework is comparability among banks across jurisdictions,[6] which necessitates a coordinated and consistent approach to adopting agreed-upon standards. Consistent with this objective, it is crucial that no jurisdiction finalize its approach to averaging until after the BCBS process has been finalized. Uneven or uncoordinated adoption of standards would create or exacerbate capital discrepancies among jurisdictions.[7] For example, as relevant to our member institutions, the U.S. GSIB surcharge already reflects significantly more stringent standards than the BCBS framework because it includes a second calculation methodology (method 2) in addition to the methodology based on the BCBS standards (method 1), and the method 2 surcharge is generally higher.[8] Adopting revisions to the assessment methodology in the U.S. before revisions to the BCBS methodology are finalized would materially reduce the comparability and utility of data reported by U.S. GSIBs and further distort capital requirements to which U.S. GSIBs are subject.

Our member institutions serve a critical role in providing credit, liquidity and a range of key financial services fundamental to the continued growth and prosperity of the U.S. and global economies. The ability of our member institutions to play this role, however, critically depends on efficiently calibrated regulation. Financial regulations that are not appropriately calibrated result in an inefficient financial system that misallocates capital in a way that can have a detrimental effect on the businesses and households that our member institutions serve, and on the U.S. and global economies as a whole, with no clear corresponding benefit to the resilience of the financial system.

Although we appreciate the acknowledgement by BCBS that averaging using daily values may be particularly challenging for certain indicators, the frequent averaging contemplated by the Consultation for most indicators is not efficiently calibrated and unfortunately would result in precisely these detrimental effects. Further, the increased operational burden and costs that would result from the changes proposed in the Consultation would exacerbate the movement of financial activity outside the regulated banking system, threatening consumers and financial stability.

These costs and risks are particularly unwarranted because requiring averaging of daily values would provide no marginal benefit to measuring or reducing systemic risk and is not needed to address the concern raised by BCBS that firms could manage their GSIB surcharge scores. As discussed below, temporary changes to GSIB surcharge indicator values, if any, have been minor. We note that even the working paper released simultaneously with the Consultation and cited by the Consultation only finds more than "marginally significant" evidence of "window dressing"

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5 2013 BCBS Standard. Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies, 80 Fed. Reg. 49082, 49082 (Aug. 14, 2015).

6 *See, e.g.*, BCBS, "Discussion paper: The regulatory framework: balancing risk sensitivity, simplicity and comparability" (Jul. 2013), https://www.bis.org/publ/bcbs258.pdf.

7 BCBS, "Basel III: Finalising post-crisis reforms" at 1 (Dec. 2017), https://www.bis.org/bcbs/publ/d424.pdf.

8 BCBS, "Regulatory Consistency Assessment Programme (RCAP) Assessment of Basel III G-SIB framework and review of D-SIB frameworks – United States" at 5 (June 2016) ("Some aspects of the G-SIB framework in the US are more conservative than the Basel framework. This includes an alternative assessment methodology that generally results in higher minimum capital requirements and broader and more frequent disclosure requirements.").

behavior for one of the 13 indicators, and even then, it was only found for three of the six years examined (from 2016-2021).[9]

With these considerations in mind, in the letter below, we make several observations and recommendations:

- High-frequency averaging would provide no marginal benefit to measuring or reducing systemic risk and is not needed to prevent firms from managing their GSIB surcharge scores.
- GSIBs should not be required to report the average of daily values or, in some instances, the average of monthly values.
- It is crucial that no jurisdiction finalize its approach to averaging until after the BCBS process has been finalized and that firms have adequate time for implementation.
- To create a more risk-sensitive GSIB framework, client clearing should be removed from the complexity category because it improves transparency, creates standardized products and reduces overall systemic risk.

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I. High-frequency averaging would provide no marginal benefit to measuring or reducing systemic risk and is not needed to prevent firms from managing their GSIB surcharge scores.

In the Consultation, BCBS proposes requiring reporting and disclosure of most GSIB indicators based on an average of values over the reporting year and is considering using daily, month-end and quarter-end values over the reporting year as potential averaging frequencies. BCBS seeks feedback on various averaging frequencies but points to what it asserts would be "benefits" to daily averaging. The purpose of the Consultation is to address the GSIB framework's sensitivity to year-end values and what BCBS describes as evidence that firms are managing their GSIB surcharge scores.

In fact, averaging of daily values would provide no marginal benefit to measuring or reducing systemic risk and is not needed to prevent firms from managing their GSIB surcharge scores. Although BCBS repeatedly cites the "benefits" of daily averaging, it does not specify or provide evidence for what benefits daily averaging would achieve that could not be achieved through less-frequent averaging. As noted above, we would also caution that the Working Paper cited by the Consultation only found more than "marginally significant" evidence of firms managing their GSIB surcharge scores for notional OTC derivatives, one of the 13 indicators, and for that indicator, the effect was only found for three of the six years examined. In addition, the Working Paper analyzes bank behavior with respect to the BCBS GSIB score (i.e., Method 1 score). U.S. GSIBs are primarily regulated with respect to the U.S.-specific GSIB score (i.e., Method 2 score). As a result,

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9 The working paper finds economically and statistically significant evidence of so-called "window dressing" of notional OTC derivatives. The working paper found "marginally significant" evidence for repo window dressing at the 10% level, cautioning that these results are "not as statistically robust as the finding on Notional OTC Derivatives." Matthew Naylor, Renzo Corrias and Peter Welz, BCBS, "Working Paper 42: Banks' window-dressing of the G-SIB framework: causal evidence from a quantitative impact study" (Mar. 7, 2024), https://www.bis.org/bcbs/publ/wp42.pdf [hereinafter "Working Paper"].

the analysis framework employed in the paper and the stated findings cannot be directly applied to U.S. GSIBs. Finally, it should be noted that the Working Paper that is cited as primary evidence for the policy proposal has not been published in a refereed academic journal and so therefore has not been subjected to the rigorous academic peer review process that is the standard for widely accepted empirical research.

Rather than frequent daily-value averaging that offers no marginal benefits to measuring or reducing systemic risk, the concerns raised by BCBS would be better addressed by narrowing the score band ranges and addressing the over-accounting of OTC derivatives in the GSIB surcharge framework, as the latter creates a greater incentive to reduce OTC derivatives relative to other exposures in the framework.

A. Challenges and Concerns

Although the Consultation cites the "benefits" of daily averaging in part to counteract concerns of end-of-year balance sheet management that could alter the measured systemic score of a GSIB in a way that is not representative of its systemic profile, it is important to recognize that any potential temporary changes to indicator values have been modest, as demonstrated by the data below, which compare current GSIB scores to hypothetical GSIB scores using a four-quarter average. The small differences between the actual scores (which could include the potential effect of temporary changes) and hypothetical scores (which would not be expected to show temporary changes) show that the effect of any balance sheet management activities has been small.

Impact of High-Frequency Averaging on GSIB Scores: 2017-2022

Year	**GSIB Score Based on...**			**# Firms with Score Decrease**
	Q4 Data	**Q1-Q4 Avg.**	**Difference**	
2017	474	480	6	2
2018	464	479	15	1
2019	471	479	9	4
2020	508	500	(8)	7
2021	536	544	7	2
2022	514	532	18	1
Average	**494**	**502**	**8**	**3**

The table above first presents data on non-weighted averages of actual GSIB scores across each of the eight U.S. GSIBs from 2017 through 2022 using fourth-quarter data based on U.S. regulatory reporting (the FR Y-15). Further, the table presents an average hypothetical score that results from taking a simple average of quarter-end data in each quarter of the year for each U.S. GSIB and then averaging those values across the U.S. GSIBs—this represents hypothetical GSIB scores if a four-quarter average were used.

As shown in the table, from 2017-2022, scores based on fourth quarter data are roughly eight points lower than scores based on an average of first quarter through fourth-quarter data. These results suggest that the impact of any potential capital management activities is modest. GSIB score bands are presently 100 score points wide, indicating that, in most circumstances, the difference between the fourth-quarter score and the score based on an average of first-quarter through fourth-quarter data would have no impact on GSIB surcharges. Further, results of individual banks vary from the average.

The final column of the table reports the number of U.S. GSIBs that would have experienced a decline (or no change) in their GSIB score had the four-quarter average approach been used. From 2017-2022, between one and seven GSIBs would have experienced a decline in their GSIB score had the four-quarter approach been used instead of the approach based on fourth-quarter data. Finally, it should be noted that across all U.S. GSIBs, the average GSIB score was actually lower than the fourth-quarter score in 2020, though this result may be an outlier given the unusual circumstances surrounding the COVID pandemic in 2020. Overall, the data presented in the table suggest that the impact of any potential balance sheet management activities is likely to be modest.

In addition to gauging the magnitude of any capital management impacts, these data are also useful for assessing the potential benefits of moving to high-frequency averaging as suggested in the Consultation. As shown in the table above, a simple four-quarter average would have the impact of modestly increasing GSIB scores by roughly eight points and would present a better reflection of the underlying systemic profile of each GSIB over the course of a full year.

The Consultation, however, suggests averaging using as frequent as daily or monthly values. The data presented above are useful for evaluating the relative costs and benefits of such an approach. Because GSIB surcharges were not based on first-quarter through third-quarter scores from 2017 through 2022, there is no basis to expect that there would be any systematic quarter-end management of scores in the first three quarters of each year. Accordingly, if daily data were available, then it would be expected that the result of computing daily averaged GSIB scores would be similar to that computed from quarter-end data.

At the same time, as discussed further below, the operational burdens and costs associated with daily data production across a variety of systemic indicators are substantial. Such complexities include dependencies on third-party data providers, situations in which the required data is simply not available at a daily frequency and the substantial IT management and systems costs associated with daily data collection. Accordingly, the additional benefits of a daily data collection are clearly limited and are outweighed by the substantial costs. Effectively, much of the same result can be achieved by using a lower-frequency averaging approach such as an average of quarterly or monthly systemic indicators.

Finally, and crucially, the data underpinning each of the systemic indicators must be viewed in the context of the ongoing business relationships and practices it represents. As the FRB alluded to in the context of its recent GSIB surcharge proposal, any temporary changes to indicator values would represent frictions for a firm and its participation in the market, making management of systemic indicator values generally undesirable and costly for banks.[10] Making substantial changes to the balance sheet for reasons wholly unrelated to a legitimate business or client need would be highly disruptive to regular business practices and existing client relationships that are often cultivated over months and years. As a result, regular and ongoing balance sheet adjustments at the end of each month or quarter would risk a measurable diminution in a bank's reputation for service and quality. Accordingly, both because of the significant costs of any potential balance sheet management and better alternatives to address these concerns, there is no significant risk of excessive balance sheet management from adopting a monthly or quarterly averaged GSIB score rather than a score based on a daily average.

B. Recommendations

Because the effect of the potential issue is minimal, as shown by the data above and the Working Paper, only moderate changes would be needed to address it. We recommend that the final rule not require an average of daily values for any indicators. Instead, we recommend that the majority of indicators use the average of month-end values, except for certain indicators with particularly difficult technical challenges for using month-end values, which we recommend use quarter-end, point-in-time measurements instead.

We also suggest that BCBS should explore narrowing the score band ranges. If narrower score bands were used, transitioning from one band to a higher band could increase the GSIB surcharge by, for example, 10 rather than 50 basis points. Accordingly, the incentives to engage in end-of-period management would be substantially reduced as the cost of transitioning to a higher surcharge would be significantly smaller, addressing BCBS's concerns. Narrowing the score band ranges also would improve sensitivity to systemic risk in a practical and reasonable way without significant disadvantages or challenges. By contrast, the proposed daily averaging of indicators would impose significant operational challenges and burdens on U.S. GSIBs without any clear additional purpose or incremental benefit.

In addition, it is important to recognize that the only indicator in which the Working Paper found economically and statistically significant evidence of year-end management was notional OTC derivatives, which are already substantially over-accounted in the capital framework. Within the GSIB surcharge alone, derivative exposures are already counted through systemic indicators in the size, interconnectedness, complexity and cross-jurisdictional activity categories. This design of the framework presents undue incentive to reduce OTC derivative exposures relative to other activities in order for banks to reduce scores. This emphasis on OTC derivatives is not justified in the Consultation, Working Paper or the GSIB surcharge framework more generally.

Fixing this distortion (including by removing the line item "OTC derivatives cleared through a central counterparty," as discussed below) would reduce the incentive to manage notional OTC derivatives much more reasonably and practically than a wholesale change to more frequent

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[10] *See* 88 Fed. Reg. at 60396-97.

averaging, which presents a number of significant and, in some instances, unsurmountable operational challenges.

II. GSIBs should not be required to report the average of daily values or, in some instances, the average of monthly values.

As discussed above, the Consultation considers using daily, month-end and quarter-end values over the reporting year as potential averaging frequencies and says there would be "benefits" to daily averaging. However, in addition to the concerns identified above, daily averaging would present significant operational challenges and disadvantages. Accordingly, we recommend that GSIBs should not be required to report any indicator as the average of daily values of the indicator, with the exception of daily values for the fourth quarter for on-balance sheet items within the total exposures systemic indicator in the size category (for which daily data is readily available through existing systems). Instead, we recommend that the majority of indicators use the average of month-end values, except for certain indicators with particularly difficult technical challenges for using month-end values, which we recommend use quarter-end, point-in-time measurements instead.

We appreciate the acknowledgement by BCBS that high-frequency averaging for certain indicators may be challenging, particularly for indicators based on flow, rather than stock, variables (flow variables would be payments activity, underwritten transactions in debt and equity markets and trading volume). We support the suggestion by BCBS that the current reporting based on year-end values should continue to apply to flow variables. We also agree with BCBS that some indicators are more difficult to value at a high frequency, including off-balance sheet items as part of the total exposure measure and Level 3 assets, and support the less-frequent averaging for these indicators.

We would specifically recommend that for the cross-jurisdictional activity indicators, the interconnectedness line item "funds deposited with or lent to unaffiliated financial institutions" and the Level 3 assets indicator in the complexity category, which create particularly difficult technical challenges for even month-end averaging, quarter-end, point-in-time measurements be used.

A. Challenges and Concerns

Data averaging using daily values would clearly pose a number of significant or, in some instances, unsurmountable operational challenges. Challenges result because data must be transformed to be fit for purpose for external regulatory reporting and because of other complications, including reliance on third-party providers for certain inputs.

Any change to the current approach would require major reengineering across multiple platforms and new levels of review, controls and governance to ensure the processes are rigorous enough for a CFO-level attestation. Although banking organizations may track data similar to those reported as part of the GSIB surcharge framework for risk-management purposes, to transform the data to be fit for purpose for external regulatory reporting would face substantial hurdles and require numerous additional controls, reconciliations and approvals.

In particular, certain regulatory reporting requires reliance on third-party providers of inputs, which inputs may be impossible to obtain on a daily basis. For example, with respect to measuring "preferred shares and any other forms of subordinated funding not captured in item 5.c" in the measurement of "securities outstanding," banking organizations regularly engage external dealers to provide an arm's-length approach to the valuations of these unlisted securities. A daily requirement would present significant operational challenges because of the dependence on the timely delivery of information from third parties to report accurate data. Given this dependency, there is virtually no ability to ensure that daily valuations can be accommodated. Finally, because an unlisted securities portfolio is granular and comprised of many tranches, to provide a daily valuation across all the capital instruments would require a substantial operational burden for third parties and internal stakeholders to attest to the accuracy. The operational challenges of ensuring processes are rigorous enough for a CFO-level attestation are also particularly difficult where current processes often require manual data submissions from lines of business or where position-level data sourcing may be required.

Further, data averaging using even monthly values is not possible for a small subset of the affected indicators due to significant systems limitations and data sourcing issues, including the indicators in the cross-jurisdictional activity category, one line item reported in the interconnectedness category ("funds deposited with or lent to unaffiliated financial institutions") and the Level 3 assets indicator reported in the complexity category.

Averaging using more frequent values of Level 3 assets and indicators in the cross-jurisdictional activity category would present particular difficulties and, moreover, these indicators may be less susceptible to any possible end-of-year balance sheet management. Level 3 assets are often highly unique in structure, and there is no active two-way market for trading them. As discussed in U.S. regulatory reporting instructions, they are valued based on "unobservable inputs" and reflect a bank holding company's "assumptions about the assumptions that a market participant would use in pricing an asset or liability and should be based on the best information available in the circumstances."[11] Level 3 assets are therefore more difficult to value than assets based on observable prices or inputs, making a daily valuation considerably more onerous (and also less beneficial, as the price is less volatile).[12] The view that banks would temporarily adjust Level 3 assets for the purpose of managing GSIB scores is simply not feasible. Indicators in the cross-jurisdictional activity category present similar dynamics, with balances that tend to be less variable and therefore would not reasonably be able to be managed around reporting dates.

Moreover, BCBS has not provided any data to demonstrate the incremental benefit of using daily averaging. Simply put, the significant costs of daily averaging vastly outweigh any small potential benefit. As discussed above, quarterly or, where possible, monthly averaging would address the concerns of BCBS without the immense and, in certain instances, impossible operational challenges for both banks and service providers that daily averaging would present.

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[11] FRB, "Instructions for Preparation of Consolidated Financial Statements for Bank Holding Companies: Reporting Form FR Y-9C" at GL-43 (Dec. 2023), https://www.federalreserve.gov/apps/reportingforms/Download/DownloadAttachment?guid=81d24d2b-870d-4e43-98c2-3ca4983678f1 [hereinafter, "FR Y-9C Instructions"].

[12] Currently, under U.S. reporting (on the FR Y-9C), banks are given 40 days (or 45 days for the December 31 as of date) to report this data due to the complexities and challenges involved in sourcing, validating, aggregating and approving the data. FR Y-9C Instructions at GEN-3. It would be implausible for U.S. GSIBs to go from quarterly reporting with a 40- to 45-day lag to a daily report while maintaining the same level of controls, review and governance to allow for CFO-level attestation.

B. Recommendations

Specifically, we recommend that the majority of the affected indicators average values as of month-end rather than daily values, with an exception only for daily values for the fourth quarter for on-balance sheet items within the total exposures systemic indicator in the size category, for which daily data is readily available through existing systems. However, for the cross-jurisdictional activity indicators, the interconnectedness line item "funds deposited with or lent to unaffiliated financial institutions" and the Level 3 assets indicator in the complexity category, which create particularly difficult technical challenges for even month-end averaging, we recommend instead using quarter-end, point-in-time measurements. We also support the suggestion by BCBS that the current year-end reporting should continue to apply to flow variables.

III. It is crucial that no jurisdiction finalize its approach to averaging until after the BCBS process has been finalized and that firms have adequate time for implementation.

BCBS proposes an implementation date of January 1, 2027 (starting from the end-2026 GSIB assessment exercise), with a transitional period starting on January 1, 2026.

A. Challenges and Concerns

If jurisdictions were to take different approaches to averaging before the BCBS process is complete, it would be detrimental to ensuring a level international playing field, BCBS's objective of enhanced international comparability and the role of BCBS as a standard-setter. Disparate international standards could worsen capital discrepancies and harm the economic competitiveness of the affected economies. This is particularly concerning because of the U.S. FRB's proposal regarding averaging and because the U.S. GSIB surcharge already reflects more stringent standards than the framework set forth by BCBS since it includes a second calculation methodology (method 2) in addition to the methodology based on the BCBS standards (method 1), and the method 2 surcharge is generally higher.

Further, for the reasons discussed above, it would be extremely difficult, if not impossible, for our member institutions to implement daily (or even, in some instances, monthly) averaging. High-frequency data averaging would require our member institutions to build new systems, processes and departments, which would take significant time and investment. In particular, as noted above, in some cases, the reported data is reliant on third parties, which poses particularly significant challenges for calculating daily valuations.

B. Recommendations

Accordingly, it is crucial that no jurisdiction finalize its averaging approach until after the BCBS process has been finalized. In addition, if the recommendations discussed above regarding averaging are not adopted, substantial additional time for compliance would be needed given the significant operational burdens associated with those changes, likely at least an additional year.

IV. To create a more risk-sensitive GSIB framework, client clearing should be removed from the complexity category because it improves transparency, creates standardized products and reduces overall systemic risk.

When a banking organization clears derivatives on behalf of a client, the central clearinghouse will often require the bank to guarantee the client's performance in order for the clearinghouse to have protection from the counterparty risk. Central clearing offers a variety of benefits to financial markets, including by reducing complexity and interconnectedness, enhancing market transparency and reducing systemic risk. Therefore, the inclusion of client clearing is at odds with the goals of both the complexity category and the GSIB framework more broadly. In recognition of these benefits, BCBS and other regulators have established central clearing as a priority, incentivizing banking organizations to clear OTC derivatives via clearing mandates, preferential capital requirements and margin requirements. For example, this intent was memorialized in the Pittsburgh G20 commitments of 2009, which affirmed that mandatory clearing of certain derivatives is essential to improve risk management and promote financial stability. According to data from the Bank for International Settlements ("BIS"), as of June 2023, over 70% (by notional value) of interest rate derivatives and credit derivatives were centrally cleared.[13]

Beyond these benefits, market participants may choose to use central clearing in part because of its scalability and liquidity, given that most commercial users cannot be direct members of a clearinghouse and are required to be "sponsored" into the central counterparty. The inclusion of exposures resulting from client clearing disincentivizes our member institutions from engaging in client clearing, contrary to the intent of regulators following the global financial crisis.[14] Discouraging central clearing would potentially result in banking organizations exiting the market,[15] increasing costs to end-users and harming financial stability.[16]

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13 *See* BIS, "OTC derivatives statistics at end-June 2023," https://www.bis.org/publ/otc_hy2311.htm.

14 For instance, at the G-20 meeting in Pittsburgh in 2009, the G-20 Leaders declared that "[a]ll standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest." G20 Leaders, "Leaders' Statement: The Pittsburgh Summit" at 9 (Sept. 24, 2009), https://www.oecd.org/g20/summits/pittsburgh/G20-Pittsburgh-Leaders-Declaration.pdf.

15 U.S. Commodity Futures Trading Commission ("CFTC") data from the past decade show that the number of futures commission merchants ("FCMs") have decreased from 22 to 12, all of which are GSIBs. The exits of FCMs from the market are in part because of the low margins in client clearing and the high regulatory requirements, including the disproportionately high capital charge on OTC derivatives clearing activities that had been imposed by the Supplementary Leverage Ratio. *See* CFTC, "Financial Data for FCMs," https://www.cftc.gov/sites/default/files/2023-12/01%20-%20FCM%20Webpage%20Update%20-%20October%202023.pdf; *see also* Basel Committee, Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions; Financial Stability Board; International Organization of Securities Commissions, "Incentives to centrally clear over-the-counter (OTC) derivatives: A post-implementation evaluation of the effects of the G20 financial regulatory reforms" (Aug. 7, 2018) at 5 https://www.fsb.org/wp-content/uploads/P070818.pdf.

16 As FRB Chair Powell has explained, central clearing "serves to address many of the weaknesses exposed during the [2007-2008 financial] crisis by fostering a reduction in risk exposures through multilateral netting and daily margin requirements as well as greater transparency through enhanced reporting requirements." Jerome H. Powell, "Central Clearing and Liquidity" (Jun. 23, 2017), https://www.federalreserve.gov/newsevents/speech/powell20170623a.htm. The U.S. Securities and Exchange

Therefore, we would recommend the line item "OTC derivatives cleared through a central counterparty" be removed from the complexity category to encourage central clearing and reduce systemic risk.

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Thank you for considering these comments. Please feel free to contact the undersigned (KFromer@fsforum.com) with any questions.

Respectfully Submitted,

Kevin Fromer
President and CEO
Financial Services Forum

Commission ("SEC") also recently finalized a rule that would essentially require central clearing of certain transactions involving U.S. Treasury securities. SEC, "Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule With Respect to U.S. Treasury Securities," RIN 3235-AN09 (Dec. 13, 2023), https://www.sec.gov/files/rules/final/2023/34-99149.pdf.