

Ms Carolyn Rogers,
Secretary General,
Basel Committee on Banking Supervision

March 25th, 2020

By electronic mail – cc FSB (Messrs Quarles and Knot)

Dear Ms Rogers,

Re: Targeted, expedited relief from CEM capital requirements for equity-options market makers

I am writing on behalf of the trade body for the most liquid and transparent securities and derivatives venues round the world*, to express support for expedited measures that deliver targeted relief for those making markets in equity options. We do so in the belief that it is important to promote a regulatory framework that:

- 1) helps markets to perform their role in capital and risk allocation most effectively; and
- 2) truly reflects the risk positions that market participants take.

The specific issues with the CEM and its treatment of options (using notional, rather than a delta-adjusted amount that reflects the true exposure) are well documented and the world is already moving to a better approach, in the form of SA-CCR. But (as you know) it is not there yet, and is unlikely to be in the short run, because SA-CCR covers a number of other issues too and the complexity of switching whole institutions onto SA-CCR is relatively high.

Hence the call for what one might call ‘bridging’ relief, targeted on those making markets in equity options and beginning (we suggest) by the end of this month. We believe the case for this is strong, not least because strains in market-making capacity were already apparent years before the current crisis, which has simply made a sub-optimal situation starker.

You will have seen representations from WFE members who have been most immediately and deeply affected by this issue, which we support. Irrespective of whether stock markets close up or down at the end of any given day, exchange-traded options play a definitive role in pricing volatility in a consensual and widely accessible form, such that market participants can manage it better.

We truly appreciate the support shown by many in authority all around the world for keeping markets functioning. At a time when the banking system again comes under pressure, we believe it matters all the more to public confidence for central markets to ‘keep the show on the road’ wherever possible, as well as mattering to the individual companies and investors that constitute the markets. We believe that this principle extends to derivatives.

As noted in the letters you will have already received, the relief requested above need not be permanent. The important thing in our view is to implement quickly, such that banks can proceed from calculating SA-CCR numbers to using them for live operations and thereby bring useful capacity to the markets.

We thank you in advance for your attention at this busy time. If there are any other measures or questions in relation to which the WFE may possibly be of assistance at any time, we would be happy to hear from you. Should you wish to speak with the WFE, please do not hesitate to contact either myself or Chief Executive Officer Nandini Sukumar (nsukumar@world-exchanges.org).

With best wishes in these unusual times,

Richard Metcalfe

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*** About the World Federation of Exchanges**

Established in 1961, the WFE is the global industry association for exchanges and clearing houses. Headquartered in London, it represents over 250 market infrastructure providers, including standalone CCPs as well as those that are part of exchange groups. Of our members, 35% are in Asia-Pacific, 45% in EMEA and 20% in the Americas. WFE's 57 member CCPs collectively ensure that risk takers post some \$800bn (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. WFE exchanges are home to nearly 53,000 listed companies, and the market capitalisation of these entities is over \$93 trillion; around \$88 trillion in trading annually passes through WFE members (at end 2019).

The WFE is the definitive source for exchange-traded statistics. Its free statistics database covers more than 40 years and provides insight into developments on global exchanges. The WFE works with standard-setters, policy makers, regulators and government organisations around the world to support and promote the development of fair, transparent, stable and efficient markets. It shares regulatory goals of ensuring the safety and soundness of the global financial system.

With extensive experience of developing and enforcing high standards of conduct, the WFE and its members support an orderly, secure, fair and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise the common good, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in a globally integrated financial system.