June 3rd, 2016

VIA ELECTRONIC SUBMISSION

Robert deV. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW.
Washington, DC 20551
[Docket No. R-1534] [RIN No. 7100 AE-48]

Re: **Federal Reserve System Proposed Rule:**
Single-Counterparty Credit Limits for Large Banking Organizations

Introduction

The World Federation of Exchanges (WFE) is the global trade association that represents 64 publicly regulated stock, futures and options exchange groups, including the more than 100 Central Counterparties (CCPs) and Central Securities Depositories (CSDs) operated by them. Our members also include standalone CCPs that are not owned or operated by an exchange group[1].

Our members are both local and global, operating the full continuum of Financial Market Infrastructure (FMI) in both developed and emerging markets. Of our members, 36 percent are in the Asia-Pacific region, 42 percent in EMEA and 22 percent in the Americas. The market capitalisation of entities listed on our member exchanges is $68.5 trillion, and around $26 trillion in trading annually passes through the infrastructures our members safeguard[2].

The WFE works with standard setters, policy makers, regulators, and government organizations to support and promote the development of fair, transparent, stable and efficient markets around the world.

The WFE shares regulatory authorities' goals of ensuring the safety and soundness of the global financial system, which is critical to enhancing investor and consumer confidence, and promoting economic growth. In that context, WFE appreciates the opportunity to provide comments regarding the Board of Governors of the Federal Reserve System's (the Board's) proposed rule, Single-Counterparty Credit Limits for Large Banking Organizations (the Rule)[3].

Summary

As the Board is aware, FMIs have been repeatedly tested in a range of significant market stress events including the 2008 global financial crisis and - more recently - in the global market volatility seen in August 2015 and at the beginning of 2016. Despite their impressive track record through stressed market conditions, FMIs continue to refine and improve their resilience and ability to manage future market crises as the core function of their offering.

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[1] The WFE membership list can be found here

[2] As at end 2015

[3] http://www.federalreserve.gov/newsevents/press/bcreg/20160304b.htm

The WFE welcomes international efforts to enhance and strengthen the resilience of the financial system post-crisis – including for market participants generally, as well as FMIs themselves, and supports further initiatives that encourage that objective. The WFE has previously publicly expressed support for initiatives such as the CMPI-IOSCO Principles for Financial Market Infrastructures (PFMIs) and the FSB Key Attributes, and has sought to contribute to the international debate on these issues and others – including CCP risk management, recovery and resolution.

The proposed rulemaking has the potential to impact the financial markets that WFE members serve through the imposition of single counterparty credit limits for many of the large banking organizations that maintain direct memberships at CCPs that WFE members operate.

The WFE applauds and supports the Board's proposed rulemaking which recommends an exemption from the single counterparty credit limits for CCPs that meet the definition of a qualified central counterparty ("QCCP"), those that have adopted the PFMIs under Regulation Q.

General Remarks

CCPs are a critical part of the global financial markets and play a key role in mitigating risks for all participants in the markets they serve. While CCPs are counterparties to the covered companies under the proposed rules, their structure as a central counterparty - along with their purpose in these markets and ultimate flat market risk profile - are dramatically different from the structure, purpose, and risk profile of the covered companies that are intended to be addressed under the Rule.

CCPS are always market risk flat. This means that, unlike other counterparties, market movements will not impact their portfolios or directly lead to their default. In fact, the default of a CCP would most likely be driven by the default of multiple major clearing members, where the losses exceed the pre-funded financial resources of the CCP[4]. However, we note that this scenario was determined to be extreme and *implausible* in ESMA's recent stress test of European CCPs[5], meaning the current requirements around resources are sufficient for all extreme but plausible stress scenarios.

QCCPs are, by definition, protected against losses caused by at least the largest clearing members' default before they could even potentially be at risk for default.[6]. Thus, the fundamental structure of a CCP contrasts with the structure of a standard counterparty to whom the exposure limitations within the Rule are rightly designed to address.

All market participants should share the ultimate goal of the proposed single-counterparty credit limit rules – i.e. that being to reduce concentration risk and limit contagion in a time of market crisis. However, applying the same standards to CCP exposures would ignore the ultimate purpose for which CCPs operate. CCPs are unique given the central role they play in the global financial markets; they are market risk flat and their sole raison d'etre is to significantly mitigate counterparty risk, which in turn will allow for more efficient global financial markets. QCCPs in particular are qualified for

[4] Pre-funded resources include the initial margin and guaranty fund deposit of the defaulter, the contributed resources of the CCP and the mutualized contributions of other clearing members

[5] "The results show that CCPs' resources were sufficient to cover losses resulting from the default of the top-2 EU-wide CM groups combined with historical and hypothetical market stress scenarios."
https://www.esma.europa.eu/press-news/esma-news/esma-publishes-results-eu-central-counterparties-stress-test

[6] Consistent with BCBS guidance, WFE believes that QCCP status for purposes of this, and other BCBS provisions, should be determined by a CCP's domestic regulatory regime and compliance with the PFMI standards.

exemption from the proposed rules considering the stringent regulatory standards with which they must comply, and which exceed those that were in place during the financial crisis when CCPs managed the default and reorganisation of major banks, and subsequent market volatility, without suffering losses themselves (or subjecting any of their members to losses). The proposed exemption for QCCPs from any rules or orders establishing similar single-counterparty credit limits for non-bank financial companies highlights their stabilizing role in the marketplace.

As such we strongly support and encourage the Board to make this exemption permanent, and would similarly encourage all jurisdictions to take this same step of providing a permanent exemption for QCCPs exposures in the interests of consistency given the global nature of markets.

Additional comments are provide below in direct response Question 37 and 55 of the proposed rules.

Specific Responses

Question 37: Should all trade exposures to QCCPs be exempt from the proposed rules? Is the definition of ''QCCP'' sufficiently clear? Should the Board consider exempting any different or additional exposures to QCCPs? Would additional clarification on these issues be appropriate?

The WFE supports the proposal to exempt all trade exposures to QCCPs. This will encourage the other companies impacted by the rules to utilize the efficient and transparent market infrastructures which performed so well during the financial crisis and that have been further strengthened since.

Regarding additional exposures to QCCPs for exemption consideration, the WFE respectfully advocates that the Board should **explicitly exempt any unfunded default fund contributions from the rules**, similar to how pre-funded default fund contributions are proposed to be exempted under the rules. This is because:

1) It would be consistent with the BCBS Standard relating to the supervisory framework for measuring and controlling large exposures (April 2014)[7]; and

2) Were the funds provided to the QCCP, they would be done so in a manner consistent with pre-funded default contributions and subject to the proposed exemption.

Companies impacted by the Rule would benefit from this explicit clarification under the final rules and therefore the WFE suggests the Board makes this clarification in its final rule making.

Secondly, due to regulatory restrictions, a covered company under the rules in the United States (US) will often seek to use a non-domestic affiliate when booking a transaction on US markets in order to provide access to US markets for market participants in that respective jurisdiction. Indeed, several market participants have voiced concerns to WFE members that the proposed rules do not go far enough to clarify that the exemptions would apply through a) the consolidated banking group, b) any domestic and non-domestic affiliates, and c) subsidiaries of the consolidated banking group which would be subject to the rules.

Therefore, the WFE encourages the Board to make more explicit in its final rulemaking that **the exemption for QCCPs applies throughout the domestic and non-domestic affiliates and subsidiaries**

[7] http://www.bis.org/publ/bcbs283.pdf

of the consolidated banking group, and that any affiliates or subsidiaries are allowed to look-through to their final QCCP exposures when determining their compliance with the limits under these rules. Not allowing that non-domestic affiliate to apply the QCCP exemption would conflict with the spirit of the proposed rules to provide an exemption for QCCP exposures more generally.

Question 55: Would additional exemptions for foreign banking organizations or the U.S. intermediate holding companies of foreign banking organizations be appropriate? Why or why not?

The WFE considers that additional clarification of the exemption to the non-domestic affiliates of the US intermediate holding companies of foreign banking organizations would be appropriate and consistent with the intent of the Rule.

As noted in our response to Question 37, several market participants have voiced concerns to WFE members that the proposed QCCP exemption does not go into enough detail to confirm that the exemption applies to the non-domestic affiliates of the US intermediate holding companies of the foreign banking organization.

We therefore advocate that this additional clarification be included in the Board's final rules.

Conclusion

WFE and its members are committed to ensuring the trading and clearing environments they operate are secure, stable and able to withstand shocks. We applaud international efforts to assist in that objective.

Investor confidence in public markets is crucial for the industry and, as markets evolve – and as G20 mandates continue to be implemented encouraging greater central clearing of financial markets – legislators and FMIs should continue listening to, and working with, each other to ensure that risks are appropriately mitigated without undue or unintended consequences.

We have set out above our views that the Board:

- should explicitly exempt any unfunded default fund contributions from the rules, similar to how pre-funded default fund contributions are proposed to be exempted under the rules; and

- could make more explicit in its final rule-making that the exemption for QCCPs applies throughout the domestic and non-domestic affiliates and subsidiaries of the consolidated banking group, and that any affiliates or subsidiaries are allowed to look-through to their final QCCP exposures when determining their compliance with the limits under these rules.

Alongside that, and more generally, **we reiterate our support for the proposed rule-making recommending an exemption from the single counterparty credit limits for CCPs and encourage the Board to make this exemption permanent. Furthermore we advocate for other jurisdictions following suit in adopting such a position. Global markets require globally consistent standards and we encourage the Board's support in urging other authorities to reach a similar position.**

Ultimately, we are working towards the shared objectives of achieving fair, robust and resilient markets in which investors can have confidence. In that regard, the WFE and its members stand ready to work with national and international agencies to ensure this.