

1 U.S. COMMODITY FUTURES TRADING COMMISSION (CFTC)
2 GLOBAL MARKETS ADVISORY COMMITTEE MEETING
3 (GMAC)

4

5 Tuesday, May 19, 2020

6 10:03 a.m.

7

8 Location:

9 Commodity Futures Trading Commission (CFTC)

10

11 Three Lafayette Centre

12 1155 21st Street, N.W.

13 Washington, D.C. 20581

14 BEFORE:

15 Dawn D. Stump (GMAC Sponsor)

16 Angie Karna, GMAC Chair

17 ALSO PRESENT:

18 Heath P. Tarbert, Chairman, CFTC

19 Brian D. Quintenz, Commissioner, CFTC

20 Rostin Behnam, Commissioner, CFTC

21 Dan Berkovitz, Commissioner, CFTC

22

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1 P R O C E E D I N G S

2 OPERATOR: Welcome, and thank you all for
3 standing by. At this time, all participants will be in
4 a listen-only mode for the duration of today's
5 presentation. Today's conference is being recorded.
6 If you have any objections, you may disconnect at this
7 time.

8 I would now like to turn the conference over
9 to Andree Goldsmith. You may begin.

10 MS. GOLDSMITH: Thank you. Good morning,
11 everyone. As the Designated Federal Officer for the
12 Global Markets Advisory Committee, it is my pleasure to
13 call this meeting to order.

14 I'd like to welcome everyone to today's
15 meeting. This is the first GMAC of 2020 and the third
16 under the sponsorship of Commissioner Stump. In light
17 of the global response to COVID-19, we are holding
18 today's meeting as a virtual meeting to protect the
19 safety of agency personnel, GMAC members, Subcommittee
20 members, presenters, and the public. While this is not
21 how we envisioned holding our first meeting of 2020, we
22 are grateful for the chance to come together in a way

1 that ensures everyone's health and safety.

2 To ensure that today's meeting goes as
3 smoothly as possible, there are a few logistical items
4 that I need to mention. Because this is a virtual
5 meeting, it is also being broadcast in a livestream on
6 the internet, so please be sure to identify yourself
7 before speaking. Also, please signal when you have
8 completed your comments so we can continue with the
9 next speaker or question. Please ensure that your
10 phone is unmuted before you start to speak, that you
11 speak clearly into your phone, and that you re-mute
12 your line when you are done speaking.

13 For GMAC members and Commissioners, if you
14 would like to be recognized during the discussion,
15 please use the Webex chat icon at the bottom of the
16 screen, then select the "all panelist" option within
17 the dropdown menu, indicate that you have a comment or
18 question, and press "enter." For any Subcommittee
19 member, please just unmute your phone if you would like
20 to speak. If any meeting participant needs assistance
21 during the call, please dial "star-zero" to connect to
22 the conference operator. Finally, please keep your

1 telephone line muted when you are not speaking. If you
2 do not mute your line, the conference operator may need
3 to mute it for you.

4 I'd now like to turn it over to the GMAC
5 sponsor, Commissioner Dawn Stump, for her opening
6 remarks.

7 COMMISSIONER STUMP: Thank you, Andree. This
8 is Commissioner Stump. Good morning to everyone, and I
9 also want to welcome you all. Certainly I should
10 acknowledge that this meeting looks much different than
11 I had envisioned even just a few short months ago. And
12 while we're not able to gather in the same room, I am
13 grateful that we can hold these types of discussions
14 and move forward the GMAC priorities in a format that
15 ensures the health and safety of the GMAC Members, the
16 Commission staff, and the public.

17 Simply put, the markets we regulate are
18 global in nature. This always seems to become more
19 apparent in the midst of difficult times, yet we work
20 with our regulatory counterparts around the world
21 constantly. Certainly, these relationships serve to
22 improve responses in unsettled times, but we should not

1 forget that they also serve us well in less eventful
2 times. I hope that when we emerge from the current
3 pandemic, this spirit of cooperation will remain
4 evident. Market regulators around the globe are
5 undeniably linked in good times and in challenging
6 times. I would like to take the opportunity to thank
7 Chairman Tarbert for his leadership on global
8 coordination, and my fellow Commissioners for their
9 efforts to cultivate productive relationships with our
10 counterparts around the globe. I very much appreciate
11 their attendance at today's meeting and their
12 contributions to the discussion.

13 I would also like to thank the GMAC members
14 for sharing their expertise of navigating the
15 regulations applied to these global markets. We are
16 very fortunate to have such expertise as we engage in
17 today's discussion. In addition, I would like to take
18 -- I would like to extend a special thanks to today's
19 presenters, Mr. Suyash Paliwal and Ms. Wendy Yun.
20 Finally, I would like to thank Andree Goldsmith, the
21 GMAC Designated Federal Officer, for organizing today's
22 meeting, and Chair Angie Karna for her leadership of

1 the GMAC.

2 The first presentation today is from Suyash
3 Paliwal, Director of the CFTC's Office of International
4 Affairs, and will focus on coordination efforts among
5 the international regulatory community in the face of
6 recent market events. The COVID-19 pandemic has
7 affected economies all over the globe, and Mr. Paliwal
8 and his team have been key players in engaging with
9 international coordination efforts during this
10 unprecedented period of market volatility. The
11 international regulatory community has come together to
12 address the challenges caused by the global pandemic,
13 and the CFTC has played a leadership role in these
14 endeavors under the leadership of Chairman Tarbert and
15 Director Paliwal.

16 Next, we will turn to the work of the GMAC
17 Subcommittee on Margin Requirements for Non-Cleared
18 Swaps. Following the last GMAC meeting in September,
19 during which the GMAC heard several presentations on
20 the unique challenges posed by the latter
21 implementation phases of margin requirements for non-
22 cleared swaps, the Commission established this

1 Subcommittee. In our public solicitation for
2 Subcommittee nominations, it became obvious that the
3 interest in this matter is vast, and the viewpoints are
4 many. It is, therefore, remarkable that such a diverse
5 group of representatives was able to deliver a report
6 to the Committee in a relatively compressed time frame,
7 further complemented by an unprecedented global
8 pandemic. The Subcommittee's mandate was to examine
9 the implementation of margin requirements for non-
10 cleared swaps, to identify challenges associated with
11 forthcoming implementation phases, and to recommend
12 actions the Commission may take to mitigate any
13 challenges identified.

14 The Subcommittee took that mandate and ran
15 with it. In just a few short months, the Subcommittee
16 has prepared a detailed report outlining several unique
17 challenges posed by the upcoming implementation phases,
18 and recommending a number of specific potential actions
19 to mitigate these challenges. The Subcommittee is to
20 be commended for continuing its hard work, even as its
21 members were responding to recent market events, and
22 the timing of margin requirements was evolving within

1 the BCBS and IOSCO. In short, the efforts to get this
2 report before the Committee today was no small task,
3 and I know the full GMAC has carefully considered its
4 content and is prepared to discuss today.

5 I want to thank especially Warren Gorlick and
6 Carmen Moncada-Terry from the CFTC's Division of Swap
7 Dealer and Intermediary Oversight for their engagement
8 with the Subcommittee. I also want to offer
9 appreciation to each member of the Subcommittee, and
10 especially Subcommittee Chair Wendy Yun for her
11 leadership. I'm so pleased that many of you could
12 attend this meeting today, and I look forward to
13 hearing the presentation.

14 With that, I will turn things back to Andree
15 and Angie. Thank you.

16 MS. GOLDSMITH: Thank you, Commissioner
17 Stump. Chairman Tarbert?

18 CHAIRMAN TARBERT: Good morning, everyone.
19 It's a privilege to be here today with the members of
20 the Global Markets Advisory Committee and its
21 Subcommittee on Margin Requirements for Non-Cleared
22 Swaps. I'd particularly like to commend and thank

1 Commissioner Stump for her leadership in sponsoring and
2 supporting the important work of the GMAC and its
3 Subcommittee. Thank you also to Andree Goldsmith for
4 her diligent work as the GMAC's Designated Federal
5 Officer.

6 I, of course, also want to express my
7 appreciation to Angie Karna for continuing to serve as
8 GMAC Chair, and to Wendy Yun for serving as the Chair
9 of the GMAC's Margin Subcommittee. To both of you and
10 all the members of the GMAC and the Margin
11 Subcommittee, thank you for giving your limited time
12 and invaluable insights to us. Your contributions are
13 critical to helping the CFTC pursue its mission to
14 promote the integrity, resilience, and vibrancy of the
15 U.S. derivatives markets through sound regulation.

16 I very much look forward to today's
17 presentations. I'm pleased that Suyash Paliwal, our
18 Director of the Office of International Affairs, will
19 be speaking about international coordination in the
20 wake of the COVID-19 pandemic. I'm also particularly
21 looking forward to the Margin Subcommittee's
22 presentation on its report and recommendations for

1 margin requirements for non-cleared swaps.

2 As a threshold matter, I agree with the
3 report's recommendation to extend the compliance
4 deadline for Phases 5 and 6 of the margin requirements
5 by a year in response to COVID-19 as the Basel
6 Committee and IOSCO have -- has also basically
7 supported this extension, and they did so because it
8 allows firms to dedicate the necessary operational
9 resources to their COVID-19 response and business
10 continuity efforts. And I also want to point out that
11 several regulators abroad have already taken steps to
12 implement this relief.

13 As I've said before I believe the Committee,
14 -- the CFTC's Margin Rules are a key systemic risk
15 mitigant. However, the margin -- the market
16 participants receiving the extension are only those
17 with the smallest uncleared swaps portfolios. So we're
18 essentially balancing the critical need to marshal
19 scarce operational resources for COVID-19 against the
20 relatively small risk posed by a one-year compliance
21 delay. So as a result, I believe the CFTC should
22 follow the international counterparts in granting that

1 extension, and this measure is on our near-term agenda,
2 and I hope the Commission will vote on it in short
3 order.

4 More generally, the Subcommittee should be
5 proud of having produced a comprehensive and thoughtful
6 set of recommendations in this report. I particularly
7 appreciate that a number of the recommendations
8 suggested multiple alternative ways of accomplishing
9 the objectives. So this is a kind of flexible,
10 practicable thinking that is incredibly helpful to the
11 CFTC as we determine how to address the issues that
12 were readily identified in the report. In that regard,
13 I know that Warren Gorlick and Carmen Moncada-Terry of
14 the CFTC's Division of Swap Dealer and Intermediary
15 Oversight were very helpful to the Subcommittee's work
16 in producing the report, and will continue to
17 contribute to their extensive -- their extensive
18 expertise as we digest and react. And I can tell you
19 that I met actually with Warren and Carmen last week to
20 discuss the recommendations and whether there were any
21 that we -- that we could implement in short order. So,
22 Warren and Carmen, thank you as always for your

1 dedication on these issues.

2 I look forward to hearing more from the
3 presenters about the issues and working with my fellow
4 Commissioners, CFTC staff, and GMAC members to pursue
5 our sound commitment to derivatives regulation in a
6 sound manner. So thank you all very much. Great to be
7 here this morning.

8 MS. GOLDSMITH: Thank you, Chairman Tarbert.
9 Commissioner Quintenz?

10 COMMISSIONER QUINTENZ: Thank you, and good
11 morning, everyone. Thank you to Commissioner Stump for
12 convening today's meeting, as well as Andree and Angie
13 for your leadership. I, too, am looking forward to
14 hearing the presentations from our own Suyash Paliwal
15 as well as the GMAC Subcommittee, and just a few
16 thoughts on the, on UMR.

17 You are now in the final implementation
18 stages of the margin framework for uncleared swaps, and
19 in 2019, one survey found that the 20 largest market
20 participants, you know, the Phase 1 firms, had
21 collected approximately \$173 billion of initial margin
22 for their non-cleared derivatives transactions.

1 Collectively, Phases 1 through 4 firms, market
2 participants captured by Phases 1 through 4, comprise
3 approximately 89 percent of the total average aggregate
4 notional amount of swaps across all phases, with the
5 remaining phases of 5 and 6 comprising only 11 percent
6 of notional amount, but representing approximately 94
7 percent of all entities brought into the uncleared
8 margin regime.

9 Given the large number of firms brought into
10 scope during Phases 5 and 6, and the estimated 7,000
11 initial margin relationships that need to be
12 negotiated, as well as the small overall percentage of
13 swap activity covered by these firms, or that these
14 firms represent, I believe it's important to implement
15 these final phases in the most responsible, least
16 burdensome way. So I'm extremely interested to hear
17 from the Subcommittee regarding their thoughts and
18 recommendations. In particular, looking forward to
19 learning more about providing possible relief from
20 initial margin calculations for small covered swap
21 entities, providing compliance grace periods to allow
22 firms time to establish the necessary custodial

1 documentation after the initial margin threshold has
2 been exceeded, and aligning the timing and methodology
3 for the material swaps exposure calculation with the
4 global Basel Committee on Banking Supervision and IOSCO
5 framework.

6 In closing, I'd like to thank all of today's
7 presenters as well as the GMAC Membership, and, again,
8 to Commissioner Stump, Andree, and Angie for organizing
9 the meeting. Thank you.

10 MS. GOLDSMITH: Thank you, Commissioner
11 Quintenz. Commissioner Behnam?

12 COMMISSIONER BEHNAM: Good morning, everyone.
13 Thanks, Andree. First off and foremost, of course,
14 thanks to Commissioner Stump for her leadership as
15 sponsor of the GMAC. Special thanks to Andree
16 Goldsmith as DFO, Angie Karna for her leadership as
17 chair, and Suyash for presenting today, and, of course,
18 Wendy Yu as Chair of the Subcommittee. I also
19 recognize the CFTC staff who have participated on
20 today's report and the production of it. It's a
21 fantastic report. Like the Chairman said, as with all
22 advisory committee reports, these are very valuable for

1 the Commission to consider. It just provides us such
2 great depth and information about what the market is
3 thinking, what challenges you're facing, and what we
4 need to do as regulators to be flexible to both meet
5 our mandate, but also allow markets to function
6 smoothly and in a well -- you know, a well-mannered
7 way.

8 I do want to just point out some issues about
9 uncleared margin, which we're going to -- hear about
10 today. Obviously, a huge part of the Dodd-Frank law
11 and in the global reforms after the financial crisis,
12 uncleared margin is a huge sort of critical
13 foundational point of the reforms, but as we sort of
14 have emerged into Phase 5 and Phase 6 now, I think it's
15 both important that we move forward with it, but move
16 forward with it in a smart and effective way so that we
17 reduce operational risk, that we time these things
18 well, and that we allow both our market participants,
19 including end users, to use our markets freely, openly,
20 and in a sort of efficient way. We need to, I think,
21 think as regulators to be able to oversee markets that
22 are functioning well, but that ultimately we allow our

1 market participants to use them for the purposes that
2 they are set out to use.

3 So looking forward to today's conversation.
4 Again, big thanks to everyone who put this together and
5 participated, is going to participate, and, again, a
6 special thanks to Commissioner Stump for her
7 leadership. I'm looking forward to today's
8 conversation. Thank you.

9 MS. GOLDSMITH: Thank you, Commissioner
10 Behnam. Commissioner Berkovitz?

11 COMMISSIONER BERKOVITZ: Thank you, and thank
12 you -- thank you, Andree, and thank you, Commissioner
13 Stump, for sponsoring this Committee. Thank you, Angie
14 Karna, for chairing -- for chairing the Committee. And
15 thanks to all the presenters today, Suyash and Wendy,
16 and others, who will be speaking.

17 In this time when we, as the Chairman noted,
18 100 percent of the agency is teleworking, and certainly
19 teleworking -- I've been impressed by our ability and
20 the dedication of our staff to our mission and under
21 some very trying circumstances with kids at home and
22 balancing all the additional responsibilities that

1 people have to undertake in this extraordinary time in
2 the face of some very serious and extraordinary
3 challenges. But we have been able to keep focused on
4 our mission and do our necessary work overseeing the
5 markets and considering necessary improvements and
6 reforms as previously.

7 I would say, though, that from my personal
8 experience, although we can meet -- in our meeting this
9 challenge in this manner, it really doesn't substitute
10 for a number of the face-to-face interactions that we
11 have the privilege of when -- in normal times, and one
12 of those is certainly advisory committee meetings and
13 being able to sit at the table and interact, and have
14 both the formal conversations and informal
15 conversations that go along with public meetings. So
16 we'll get the job done, and we're getting the job done
17 today, but I think there is a certain loss. And in
18 that regard, it's absolutely critical that we have
19 meetings like this, and we do stay informed, and we do
20 hear from market participants, even if it's -- even if
21 it's over the phone. So, again, I want to thank
22 Commissioner Stump and all the participants today.

1 The situation with respect to initial margin
2 has been noted, and certainly I supported the previous
3 extension of the compliance framework. One question
4 that I'm interested in in this time is the extent to
5 which, given the stresses on the economy, the credit --
6 the credit risks are -- what the effect of increased
7 counterparty credit risk, in light of the economic
8 downturn and the economic stresses that many sectors of
9 the economy -- the retail sector, the energy sector,
10 transportation sector -- given the increased credit
11 risks in these various sectors, how does that affect
12 the risks presented by -- to the intermediaries on
13 uncleared swaps, and whether there's a cumulative
14 greater counterparty credit risk component here that we
15 should be considering as we consider these deadlines
16 and the risks proposed -- posed by these various sets.
17 So I think that's a question that I'm very interested
18 in learning about as we proceed to consider these
19 margin requirements.

20 So I'm very much looking forward to the
21 discussion today, and thank you, again, everyone who
22 made this happen.

1 MS. GOLDSMITH: Thank you, Commissioner
2 Berkovitz. Thanks again to all the Commissioners for
3 taking part in this meeting of the GMAC and for sharing
4 your remarks with the Committee. Before we begin with
5 our presentations today, I would like to do a roll call
6 of the GMAC members on the phone so that we have your
7 attendance on the record. After I say your name and
8 firm, please indicate that you are present.

9 Chris Allen, Standard Chartered Bank?

10 MR. ALLEN: Yes, I'm here. Hi.

11 MS. GOLDSMITH: Ted Backer, Morgan Stanley?

12 (No response.)

13 MS. GOLDSMITH: Ashley Belich, RBC Capital

14 Markets?

15 (No response.)

16 MS. GOLDSMITH: Shawn Bernardo, TP ICAP SEF?

17 MR. BERNARDO: Good morning. I'm here.

18 MS. GOLDSMITH: Darcy Bradbury, D.E. Shaw &

19 Co.?

20 MS. BRADBURY: I'm here. Thanks.

21 MS. GOLDSMITH: Maria Chiodi, Credit Suisse

22 Securities?

1 MS. CHIODI: Here. Thank you.

2 MS. GOLDSMITH: Clive Christison, BP?

3 (No response.)

4 MS. GOLDSMITH: Joe Cisewski, Better Markets?

5 MR. CISEWSKI: Yes, I'm here. Thank you.

6 MS. GOLDSMITH: Jim Colby, Coalition for

7 Derivatives End Users?

8 (No response.)

9 MS. GOLDSMITH: Gerry Corcoran, R.J. O'Brien
10 & Associates?

11 (No response.)

12 MS. GOLDSMITH: Sunil Cutinho, CME Clearing?

13 (No response.)

14 MS. GOLDSMITH: David Goone, Intercontinental
15 Exchange?

16 (No response.)

17 MS. GOLDSMITH: Paul Hamill, Citadel

18 Securities?

19 (No response.)

20 MS. GOLDSMITH: Amy Hong, Goldman Sachs?

21 MS. HONG: Present. Thank you.

22 MS. GOLDSMITH: John Horkan, LCH Group?

1 MR. HORKAN: Present.

2 MS. GOLDSMITH: Adam Kansler, IHS Markit?

3 (No response.)

4 MS. GOLDSMITH: Angie Karna, Nomura

5 Securities, International?

6 MS. KARNA: I'm here. Thank you.

7 MS. GOLDSMITH: Robert Klein, Citigroup

8 Global Markets?

9 MR. KLEIN: I'm here. Good morning.

10 MS. GOLDSMITH: Agnes Koh, Singapore Exchange

11 Limited?

12 MS. KOH: Good morning. I'm here.

13 MS. GOLDSMITH: Ben MacDonald, Bloomberg LP?

14 MR. MACDONALD: Good morning. I'm here.

15 MS. GOLDSMITH: Erik Tim Müller, Eurex

16 Clearing?

17 (No response.)

18 MS. GOLDSMITH: Joe Nicosia, Louis Dreyfus

19 Company?

20 (No response.)

21 MS. GOLDSMITH: Murray Pozmanter, DTCC?

22 MR. POZMANTER: Present. Thank you.

1 MS. GOLDSMITH: Thomas Sexton, NFA?

2 MR. SEXTON: Good morning. I'm here.

3 MS. GOLDSMITH: Jessica Sohl, HC

4 Technologies?

5 (No response.)

6 MS. GOLDSMITH: Thane Twiggs, Cargill Risk

7 Management?

8 MR. TWIGGS: I am present. Thank you.

9 MS. GOLDSMITH: Supurna VedBrat, BlackRock?

10 MS. VEDBRAT: I'm here.

11 MS. GOLDSMITH: Masahiro Yamada, JP Morgan

12 Securities?

13 (No response.)

14 MS. GOLDSMITH: If any GMAC members were
15 unable to indicate your presence on the call, please
16 email me to confirm your attendance for the record.

17 I'd now like to turn it over to Warren
18 Gorlick, Alternate Designated Federal Officer for the
19 GMAC Subcommittee on Margin Requirements for Non-
20 Cleared Swaps, to conduct a roll call of the
21 Subcommittee Members.

22 MR. GORLICK: Thank you, Andree. This is

1 Warren Gorlick. After I say your name, could you do
2 the same as what Andree just did with respect to the
3 GMAC members? So I'll just begin in alphabetical
4 order.

5 Mr. Mark Bailey, Two Sigma Investments?

6 (No response.)

7 MR. GORLICK: Ms. Darcy Bradbury, D.E. Shaw &
8 Co.?

9 MS. BRADBURY: I'm here.

10 MR. GORLICK: Mr. Rosario Chiarenza, Morgan
11 Stanley?

12 (No response.)

13 MR. GORLICK: Betsy Cochrane, Barings?

14 (No response.)

15 MR. GORLICK: Mr. Dominick Falco, BNY Mellon?

16 (No response.)

17 MR. GORLICK: Ms. Vera Horgan, Wellington
18 Management?

19 MS. HORGAN: I'm here.

20 MR. GORLICK: Ms. Tara Kruse, ISDA?

21 MS. KRUSE: Present.

22 MR. GORLICK: Ms. Alessandra Riccardi,

1 National Futures Association?

2 (No response.)

3 MR. GORLICK: Ms. Sachiyo Sakemi, BlackRock?

4 MS. SAKEMI: Present.

5 MR. GORLICK: Mr. Andrew Smith, Virtu

6 Financial?

7 (No response.)

8 MR. GORLICK: Mr. Nick Steele, Barclays?

9 (No response.)

10 MR. GORLICK: Ms. Christine Stevenson, BP

11 Energy?

12 (No response.)

13 MR. GORLICK: Mr. Chris Walsh, AcadiaSoft?

14 (No response.)

15 MR. GORLICK: And Ms. Wendy Yu, Securities

16 Industry and Financial Markets Association Asset

17 Management Group?

18 MS. YU: I'm here.

19 MR. GORLICK: Okay. Did I miss anyone?

20 (No response.)

21 MR. GORLICK: Okay. Thank you very much, and

22 please email me in case you join the call later. Thank

1 you -- thank you again.

2 MS. GOLDSMITH: Thanks, Warren. With that,
3 I'd like to turn the program over to Angie Karna, the
4 Chair of the GMAC, for an introduction of our
5 presenters.

6 MS. KARNA: Thank you, Andree. Just a few
7 logistical reminders. Please keep your phones on mute
8 while you are not speaking. Following the
9 presentations, if a GMAC member or Commissioner would
10 like to be recognized to speak, please use the Webex
11 chat icon at the bottom of the screen, then select the
12 "all panelists" option within the dropdown menu,
13 indicate that you have a question, and press enter.
14 Please identify yourself and your firm prior to
15 speaking, and indicate when you are finished speaking.

16 The first item on the agenda is a
17 presentation from Suyash Paliwal, Director of the
18 CFTC's Office of International Affairs. Mr. Paliwal
19 will give a presentation on International Coordination
20 Efforts in the Time of COVID-19. Please go ahead, Mr.
21 Paliwal.

22 MR. PALIWAL: Well, good morning, everyone.

1 Thank you, Angie. Thank you, Commissioner Stump and
2 Andree, for the kind invitation to speak at this GMAC
3 meeting. Thanks also to Wendy for your leadership of
4 the Subcommittee, and I look forward to your
5 presentation. It's my pleasure to share with you a few
6 thoughts on some of the international coordination
7 among regulators and supervisory authorities that have
8 taken place as we have together faced the COVID-19
9 pandemic. It needs no retelling that this pandemic has
10 roiled our daily lives and, as one dimension, roiled
11 the markets in which we operate.

12 Before getting into the substance of what I
13 would like to share as to the attention,
14 responsiveness, and cooperation among regulators and
15 authorities in the global community, I would just like
16 to say that I hope everyone on this call is doing well
17 in this highly unusual and, in many ways, challenging
18 environment. We all have our professional
19 responsibilities and objectives as well as our personal
20 responsibilities to ourselves, our loved ones,
21 children, elders, parents, in a setting where work-life
22 balance has taken on new meaning. We've all made great

1 efforts as we have weathered the recent weeks and
2 maintained poise in facing the coming months. Here at
3 the CFTC, we have been fully remote for about two
4 months now and have been able to run all operations
5 seamlessly and without interruption through the
6 teleworking mode.

7 And just as an aside, I'm guessing we all
8 remember that viral video from some time ago of the BBC
9 interview of a professor in South Korea where his two
10 young children suddenly barge in and stroll confidently
11 over to their dad's home office desk, followed by his
12 frantic wife trying to get the kids off the
13 international airways since there's some decorum of her
14 husband's interview. Yes, I've heard all of that on
15 calls since March from kids, to pets, construction
16 workers, delivery folks, birds chirping, wind howling,
17 and all manner of life soundtracks. And for what it's
18 worth, I have to say it has its charm.

19 At the outset, I should note that any views I
20 express do not necessarily represent the views of the
21 CFTC or any Commissioners. They're purely my personal
22 views, but hopefully you'll still listen. One of the

1 hallmark features of this agency and its leadership, a
2 value that I share, is transparency and stakeholder
3 engagement. Indeed, the work of the GMAC and all the
4 advisory committees exemplifies this. In the CFTC's
5 Office of International Affairs, which is responsible
6 for coordination of the agency's international and
7 cross-border policy initiatives in bilateral and
8 multilateral settings, we have a vantage point on the
9 Agency's manifold coordination efforts with our
10 counterparts globally. So hopefully I can provide some
11 useful insights to you, and hear your valuable
12 perspectives, on the front lines of the derivatives
13 market.

14 As perhaps many on this call have
15 experienced, workloads in our space seem to have at
16 least doubled, with some or all of business as usual
17 taking place, and a whole additional layer of work
18 relating to maintaining awareness of and responding to
19 circumstances of the COVID-19 pandemic. It has been
20 the same for regulators as we have -- as we have
21 remained vigilant to preserve the smooth functioning of
22 our markets.

1 In my remarks today, I would like to speak
2 about three main things. First, I would like to
3 provide some observations on how we have been thinking
4 about the COVID-19 pandemic, how it has played out in
5 derivatives markets, and manifestations we have focused
6 on. Second, I'll give perspective on modes of
7 coordination among regulators and authorities and the
8 global community. And third, I'll share some thoughts
9 on regulators' more pointed responses, both on an
10 individual and multilateral basis. But first, to recap
11 a few highlights of the COVID-19 turmoil.

12 The coronavirus pandemic has led to one of
13 the most volatile periods the derivatives market has
14 ever experienced. The volume of futures, options and
15 swaps trades had surged to an all-time high, but as we
16 saw it, this was not a story of doom and gloom, but of
17 resilience and robustness. Derivatives markets, in
18 particular, served as shock absorbers rather than
19 amplifiers of risk, internalizing the impact of the
20 market swings. In many ways, it is a testament to the
21 reforms implemented over the last decade following the
22 2008 global financial crisis.

1 Prior to that crisis, derivatives markets
2 were not heavily regulated. Following that crisis,
3 regulators around globe, through the G20, undertook to
4 reform the derivatives regulatory framework. With a
5 basic ecosystem of trading and execution, clearing, and
6 transaction reporting, that ecosystem, by and large,
7 did what it was designed and built to do. In many
8 ways, we could not have conjured up a better stress
9 test.

10 The virus knew no national or jurisdictional
11 boundaries. Financial markets, participants, and
12 regulators the world over faced the same sorts of
13 challenges at the same time. Central clearing, as a
14 concept, assures, among other things, that counterparty
15 default risk is mitigated, and this is what happened.
16 Rather than having volatility lead to widespread
17 uncertainty or toxicity of assets or panic, volatility
18 was channeled, as designed, into the clearing
19 ecosystem. The absorption mechanism, of course, was
20 margin, and we saw that. Margin calls were placed.
21 Margin levels increased substantially. This occurred
22 with initial margin for clearinghouses, balanced risk

1 management objectives, and anti-procyclicality
2 concerns, and significantly more so with variation
3 margin.

4 Generally, across the board, margin was
5 provided as required, a testament not only to the
6 clearing ecosystem, but also to the resiliency of
7 financial and non-financial cleared market
8 participants. In addition, reforms put in place by the
9 CFTC since 2008 required enhanced transparency and
10 competition, both of which help ensure price discovery
11 and improved pricing and liquidity for market
12 participants, including producers and processors
13 seeking to hedge their risks. For example, reforms of
14 swap execution facilities required additional pre- and
15 post-trade price transparency and competitive methods
16 of execution. This helps ensure that the swaps
17 markets, which are critical to many types of financial
18 instruments, interest rates underlying mortgages, and
19 currency exchange rates, remain transparent, fair, and
20 competitive. Moreover, recently-proposed amendments to
21 swap data reporting rules would, for the first time,
22 require the reporting of margin and collateral data for

1 uncleared swaps. If adopted, this proposal will
2 significantly strengthen the CFTC's ability to monitor
3 their systemic risk in uncleared swaps markets.

4 The clearing ecosystem requires resources and
5 expenditures to maintain. It proved its resiliency
6 merit. Capital markets functioned to enable market
7 participants to generate money needed to meet margin
8 calls. There was appreciable need for funds to meet
9 margin calls, prompting something of a dash for cash,
10 particularly denominated, which created room for
11 liquidity support. This support came with central
12 banks providing interventions through their facilities.
13 To sum up this high-level recap, one takeaway is that
14 financial markets did what they were supposed to do,
15 enabling us to weather the COVID-19 turmoil and prepare
16 for the denouement in the coming months.

17 Before turning to my second main topic,
18 coordination among regulators globally, I'll just share
19 a bit about how the CFTC has adapted to the
20 circumstances of the COVID-19 turmoil. In short, there
21 was a heightened degree of internal- and external-
22 facing coordination and communication. Internally, the

1 agency's leadership held frequent coordination calls,
2 almost daily, as the pandemic evolved, and continuing
3 into the present, at times holding multiple intraday
4 calls. This enabled the agency's leadership to pool
5 information and insights gathered from the markets, our
6 registrants, domestic and international counterpart
7 regulators, and the agency's world-class staff, and to
8 respond timely, thoughtfully, and decisively.

9 The agency's teams connected frequently with
10 regulated entities, other agencies, Capitol Hill, the
11 media, and even academics, to produce the most informed
12 responses we could achieve, and this will continue as
13 we proceed from the liquidity strains of the recent few
14 weeks to the coming months as the economic consequences
15 of COVID-19 continue to unfold.

16 Of course we were not alone in this sort of
17 mode of response. The Office of International Affairs
18 held periodic check-ins bilaterally with key
19 counterparts in the U.K., Europe, and Asia to maintain
20 awareness of the ebb and flow of the virus itself and
21 its market impacts. Responsiveness was consistent
22 among our counterparts, from adapting to remote

1 working, to relating institutional preparedness, to
2 communications with market participants, to careful
3 consideration of targeted responses.

4 Turning now to international coordination
5 more directly, in many ways, the multilateral bodies at
6 the forefront of the regulatory response to the 2008
7 financial crisis, and, in the case of the Financial
8 Stability Board established in the wake of that crisis
9 as a successor to the Financial Stability Forum, served
10 an important function in the COVID-19 turmoil. It
11 provided an established mechanism of international
12 cooperation already in place for information exchange
13 and for appropriate response. For instance, we at the
14 CFTC were undertaking frequent coordination efforts,
15 and I would note the Treasury Department was
16 coordinating similarly among U.S. financial regulators.
17 International bodies were holding frequent coordination
18 calls drawing upon the deep and varied insights of
19 their members.

20 The International Organization of Securities
21 Commissions, or IOSCO, played an important role in
22 information sharing among securities and derivatives

1 markets authorities globally, recognizing that
2 continued functioning of financial markets supports the
3 real economy's efforts in adapting to the impacts of
4 COVID-19 through the ability to hedge risk and access
5 funding. I also noted that financial market regulators
6 have focused on the operational and financial
7 resilience of market infrastructures, the operational
8 capability of market users, and the continued flow of
9 information to markets, as well as appropriate
10 regulatory flexibility.

11 During the COVID-19 turmoil and through to
12 the present, the IOSCO Board and the IOSCO Regional
13 Committees have been hosting regular calls to share
14 information and coordinate responses as necessary.
15 Banking and financial market regulators also continue
16 to cooperate in the international arena to promote
17 adequate liquidity and funding options. Financial
18 market regulators have shared, and IOSCO has collected,
19 observations about responsive steps, market dynamics,
20 and developments generally, and, notably, the effects
21 of authorities' responsive steps. IOSCO itself pivoted
22 in its planned work for the year to adapt to the

1 prominence and importance of monitoring and addressing
2 the impacts of coronavirus.

3 The Financial Stability Board, in whose work
4 the CFTC has participated, similarly played an
5 invaluable role in promoting frequent information
6 sharing among its members, allowing central banks,
7 finance ministries, and market regulators to share
8 insights. This proved especially significant as
9 central banks around the world were undertaking various
10 support measures, sometimes unconventional, in response
11 to challenges in financial markets. The FSB's COVID-19
12 work included regularly sharing information on evolving
13 financial stability considerations and appropriate
14 responsive policy measures through calls among members
15 and compilations of members' responses, reviewing
16 potential financial risks and vulnerabilities, and, as
17 appropriate, coordinating policy responses to promote
18 global financial stability, keep markets open and
19 functioning, and preserve the financial system's
20 capacity to finance growth.

21 Moreover, there has been a strong bridge
22 between IOSCO and the FSB, enabling robust

1 collaboration between these two institutions. With the
2 IOSCO's Financial Stability Engagement Group, the CFTC
3 and other financial market regulators in the Americas,
4 U.K., Europe, and Asia Pacific have integrated into
5 work at the FSB and advanced IOSCO's work in
6 furtherance of IOSCO's objective to address systemic
7 risk, which coexists with the objectives of protecting
8 investors and maintaining fair, efficient, and
9 transparent markets.

10 Indeed, as the FSB observed in its note on
11 the COVID-19 pandemic, and showed stability
12 implications and policy measures taken, COVID-19-
13 related developments have resulted in a surge in
14 volumes cleared in central counterparties along with
15 increased margin calls. One strength is that CCPs and
16 their large clearing members have shown resilience
17 during COVID-19 developments.

18 The third and last theme I wanted to touch on
19 is some of the actual responses that regulators
20 considered appropriate to help financial market
21 participants weather the COVID-19 turmoil. The CFTC
22 published a series of no-action letters of targeted

1 temporary relief aimed at easing the impact that COVID-
2 19 is having on derivatives markets' participants.
3 Social distancing has created novel hurdles in
4 complying with regulatory requirements that were
5 written with traditional centralized offices in mind.
6 Some no-action letters aim to facilitate physical
7 separation in its personnel in response to the
8 pandemic, targeting swap dealers and members of
9 designated contract markets and swap execution
10 facilities.

11 The no-action relief addresses the
12 application of certain CFTC regulations where
13 compliance is intended to be -- is anticipated to be
14 particularly challenging, sometimes impossible, because
15 of the displacement of registrants' personnel from
16 their normal business sites. A later no-action letter
17 covers the net capital treatment of loans obtained by
18 futures commission merchants and introducing brokers
19 through the Paycheck Protection Program administered by
20 the Small Business Administration under the CARES Act.
21 In total, there were roughly a dozen no-action letters
22 aimed to assist market participants in dealing with the

1 impacts of COVID-19.

2 Turning to the international front, as
3 previous speakers have noted, in early April, IOSCO and
4 the Basel Committee on Banking Supervision agreed to a
5 one-year extension of the deadlines for the last two
6 implementation phases of margin requirements for
7 uncleared swaps. There was notable sentiment that, at
8 a time when market participants were spread thin in
9 their resources and using the resources they had to
10 address the impact of coronavirus, these forthcoming
11 deadlines were worthwhile candidates for extension.
12 Agreement was achieved relatively rapidly, and it was
13 equally understood that in order for this relief to be
14 effective, it had to be adopted at an international
15 level. Of course, margin requirements are a key
16 reform, supporting the stability of derivatives markets
17 and our financial system generally. In this case, with
18 an extension that may affect a small percent of the
19 total market, in a time when the market participants
20 themselves are undergoing considerable amounts of
21 strain, this change is worth considering.

22 Again, it is my pleasure to have this

1 opportunity to speak with you all, and I would be
2 delighted to address a few questions, and look forward
3 to the remaining meeting. Thank you.

4 MS. KARNA: Thank you, Mr. Paliwal. The
5 floor is now open for questions and comments on Mr.
6 Paliwal's presentation. As a reminder, if anyone has
7 any questions or comments, please indicate that on the
8 chat feature of Webex. Ms. Belich?

9 MS. BELICH: Yes, thank you, Angie, and I
10 hope everyone can hear me. I was having some audio
11 connection earlier. Thank you again for this
12 presentation, and thank you as well to Chairman
13 Tarbert, Commissioner Stump, and Angie for leading
14 today's meeting, and putting forth two agenda items
15 that are of critical importance for both regulated swap
16 dealers and its clients.

17 I'd just like to briefly say in support of
18 some of the items that were just mentioned that it's
19 very important for coordination between U.S. regulators
20 and global regulators to continue, especially during
21 times of stress and uncertainty, as was previously
22 mentioned. It's meetings like the GMAC that allow

1 these critically-important conversations and dialogue
2 to continue so that we can manage and assess new and
3 existing risk associated with the global OTC
4 derivatives markets, and to look for opportunities to
5 appropriately ease the burden for its market
6 participants. So further support and strongly stress,
7 you know, the additional items and areas of relief that
8 the Commissioners may be considering as we move forward
9 through this pandemic. Thank you.

10 MS. KARNA: Thank you. Does anyone else have
11 any questions or comments?

12 (No response.)

13 MS. KARNA: All right. Wonderful. Thank you
14 very much, Mr. Paliwal, for your very comprehensive
15 presentation.

16 MR. PALIWAL: Thank you.

17 MS. KARNA: Before our next presentation, I'd
18 like to turn the agenda over to Andree for a roll call
19 update.

20 MS. GOLDSMITH: Thanks, Angie. I just wanted
21 to note there are a few GMAC members who are present on
22 the phone, but for whatever reason were not able to

1 respond during the roll call. Let me list them out
2 really quickly: Edward Backer, Morgan Stanley; Ashley
3 Belich, RBC Capital Markets; Sunil Cutinho, CME
4 Clearing; Paul Hamill, Citadel Securities; Adam
5 Kansler, IHS Markit; Jessica Sohl, HC Technologies; and
6 Masi Yamada, JP Morgan Securities. Thanks, Angie. Go
7 ahead.

8 MS. KARNA: Thank you, Andree. The next item
9 on the agenda is a presentation from the GMAC
10 Subcommittee on Margin Requirements for Non-Cleared
11 Swaps. The Subcommittee will present its
12 recommendations to improve scoping and implementation
13 of initial margin requirements for non-cleared swaps.
14 Many thanks to all of the Members of the Subcommittee,
15 including the Subcommittee Chair, Wendy Yun, for the
16 great work on the report and recommendations. We are
17 looking forward to your presentation. Ms. Yun, please
18 go ahead.

19 MS. YUN: Thank so much, Angie. Before we
20 begin, please let me state that the views I express
21 today are my own and not of my firm's. I am
22 participating on behalf of the Margin Subcommittee as

1 co-head of the SIFMA Asset Management Group's
2 Derivatives Committee, whose member firms serve a wide
3 array of buy-side end users, such as pension funds,
4 institutional investors, corporates, endowments, U.S.
5 mutual funds, UCITS, and private funds.

6 Now, on behalf of the Margin Subcommittee, we
7 would like to thank Chairman Tarbert, Commissioners
8 Stump, Behnam, Quintenz, and Berkovitz, and members of
9 the Commission staff, and the GMAC Committee for having
10 us here today. In particular, we'd like to extend a
11 special thanks to Commissioner Stump for her continued
12 focus on critical margin issues and their unique impact
13 on the later-phase market participants, such as
14 American retail investors and retirement savers, and
15 for her leadership in creating this Margin Subcommittee
16 to offer recommendations to address those challenges.
17 Additionally, we'd like to acknowledge and thank Warren
18 Gorlick and Carmen Moncada-Terry for all of their time
19 and invaluable contributions throughout the process of
20 preparing the Margin Subcommittee's report.

21 First, I'd like to commend the actions that
22 the Commission has taken thus far, such as the

1 codification of a new Phase 5 and, thus, extending the
2 existing \$8 billion AANA threshold out to a new Phase
3 6, when a majority of smaller end users are expected to
4 come into scope. We're also pleased to hear Chairman
5 Tarbert's support of the CFTC's adoption of the one-
6 year extensions recently recommended by BCBS-IOSCO in
7 relation to the COVID pandemic.

8 However, as end users, asset managers,
9 dealers, custodians, and vendors approach these later
10 phases, we believe that there are still significant
11 scoping and implementation challenges in bringing in
12 such a large and diverse group of market participants
13 into compliance with the CFTC's complex initial margin
14 requirements for non-cleared swaps. Our report is
15 intended to provide recommendations to address such
16 issues in Phases 5, 6, and beyond. Today, we ask the
17 GMAC Committee to endorse these recommendations for
18 action to be taken by the Commission.

19 Our focus has been to make the CFTC margin
20 rules more workable and efficient for entities subject
21 to the remaining phases without compromising the
22 overall goal of reducing systemic risk. According to

1 ISDA's initial margin phase-in analysis conducted in
2 2018, a significant portion of counterparties and
3 relationships brought to scope in Phase 6 are not
4 likely to be required to exchange regulatory initial
5 margin, and those that do will make up a small
6 percentage of the total industry system amounts.
7 Therefore, we strongly believe that there is ample room
8 to reduce the compliance burdens without affecting the
9 regulatory objectives.

10 As you can see from the executive overview in
11 our report, starting on page 5 for those of you
12 following in the document, we bifurcated our
13 recommendations into immediate-term and later-term
14 asks. Immediate-term recommendations are those
15 encouraged to be actioned by the Commission prior to or
16 as of the Phase 5 compliance date, whereas later-term
17 recommendations are ones urged to be adopted prior to
18 or as of the Phase 6 compliance date.

19 I'll now turn to the immediate-term
20 recommendations, the first of which is interpretive
21 guidance regarding the application of the margin rules
22 to separately-managed account clients, or SMA clients.

1 Generally speaking, an SMA client, such as the U.S.
2 pension fund, will invest in different investment
3 strategies through multiple managers in order to
4 diversify its investment perspectives, expertise, and
5 asset allocations, and to mitigate concentration risks.
6 Each manager typically has full investment discretion
7 over its separate mandates for that client, and has no
8 transparency or control over the strategies or trading
9 activities carried out by the client's other managers.

10 The interpretive guidance is meant to confirm
11 that covered swap entities, or CSEs, may document and
12 split the \$50 million regulatory IM threshold across
13 different mandates for a single SMA client, so long as
14 the covered swap entity and client allocate no more
15 than \$50 million in the aggregate. To the extent that
16 the covered swap entity were to inadvertently exceed
17 \$50 million in uncollateralized IM exposure with that
18 client, the covered swap entity could continue to trade
19 with respect to that client mandate, if, one, it is
20 being traded under regulatory compliant IM
21 documentation, or, two, the covered swap entity and
22 manager for the client mandate have agreed to a

1 regulatory IM sub-threshold, and that manager is
2 trading at or below the agreed sub-threshold.

3 This is provided that the covered swap entity
4 and managers of any other mandates for that same client
5 are no longer continuing to trade, absent any other
6 relief, and are working to reduce the aggregate
7 uncollateralized IM exposures of that client back to or
8 below \$50 million.

9 When an SMA client comes into scope under the
10 margin rules, it is unlikely that all of the client's
11 mandates will be papered under regulatory IM-compliant
12 documentation at the outset, and given the difficulties
13 for covered swap entities in monitoring IM amounts on
14 an intraday basis across multiple mandates and multiple
15 trading desks at the covered swap entity and its
16 affiliates, it is possible that the \$50 million
17 regulatory IM threshold could be inadvertently
18 breached.

19 Absent regulatory guidance on how covered
20 swap entities should apply the IM threshold
21 requirements to an SMA client's separate investment
22 mandates, the covered swap entity may feel compelled to

1 cease its trading activity with all of the client's
2 managers, even those acting under regulatory IM-
3 compliant documents, or within agreed allocations of
4 the IM threshold. The holding of trading, in turn,
5 could impair the investment activities and harm the
6 underlying client. In order to help illustrate this
7 issue, we've included as Appendix C the application of
8 this interpretive guidance in various scenarios.

9 Our next request is related to eligible
10 collateral. Our recommendation is to eliminate undue
11 restrictions on the collateral -- the collateral
12 eligibility of money market funds, in particular, the
13 restrictions on money market funds to engage in repos,
14 reverse repos, securities lending, and securities-
15 barring transactions. Under the margin rules, the
16 Commission highlighted that these restrictions were to
17 "ensure consistency with a prohibition under the final
18 rule against custodian r initial margin
19 collateral." However, under money market funds sweep
20 arrangements, under no circumstances does a pledger's
21 custodian have any right to r , reuse, or
22 take any other independent actions with respect to the

1 pledged money market fund shares. Any transfer of the
2 money market fund shares into or out of the segregated
3 IM account are instructed by the pledger and agreed to
4 by the secured party. This is to ensure that the
5 secured party always has a perfected first-priority
6 security interest in the pledged money market fund
7 shares.

8 Additionally, the trading activity of a money
9 market fund is independently executed through its own
10 fiduciary manager. Neither party to a swap nor their
11 custodians have any say in the money market funds'
12 underlying trading activities. Money market funds
13 invest predominantly in treasuries and other high-
14 quality, short-term government securities. Most of
15 them made available to the institutional market today
16 use securities lending or repo arrangements to earn
17 cash -- earn returns on cash and other high-quality
18 assets to avoid cash drag in performance, to diversify
19 its investments, and mitigate its own exposure to its
20 own custodians' insolvencies or any consolidation
21 issues it may have with this cash held at its
22 custodian.

1 Market participants currently estimate that
2 there are less than a handful of money market funds
3 worldwide that would meet the collateral eligibility
4 requirements under the margin rules, and globally, we
5 are not aware of any single money market fund that was
6 satisfy the CFTC's, the prudential regulators', and the
7 EU margin rules. This severely limits the available
8 use of money market funds as eligible collateral and
9 introduces concentration risks, which, in turn, present
10 a different set of systemic risk concerns.

11 Our third ask focuses on the consolidation
12 requirements under the margin rules. The Margin
13 Subcommittee recommends that seeded funds be exempt
14 from having to consolidate their AANA or material swap
15 exposure amounts with their sponsors during a limited
16 seeding period, provided that such sponsors do not
17 guarantee the seeded funds' obligations. To clarify, a
18 seeded fund are -- is a -- is an investment fund, in
19 particular, U.S. mutual funds or insurance entities,
20 that are typically seeded for a limited period with
21 capital by a passive sponsor in order to establish a
22 sufficient performance track record, to draw in

1 distributors and third-party investors. Such sponsors
2 do not have any control over the trading or management
3 of the seeded funds, and typically provide no credit
4 support or guarantees of the seeded fund's performance
5 or obligations.

6 Seeded funds typically would not exceed the
7 AANA or material swap exposure thresholds absent the
8 consolidation requirements with sponsors or other
9 margin affiliates. As a result, the U.S. margin rules
10 put U.S. seeded funds at a disadvantage when compared
11 to non-U.S. seeded funds, such as UCITS funds that are
12 not subject to the same consolidation requirements
13 under other margin regimes. It also potentially puts
14 U.S.-covered swap entities at a disadvantage as non-
15 U.S. seeded funds may intentionally decide not to trade
16 with them to avoid the U.S. consolidation requirements.
17 This relief would be -- would be consistent with the
18 treatment of seeded funds by the Federal Reserve and
19 the Commission under the Volcker Rule.

20 Our next recommendation is related to small
21 covered swap entities. We ask that the Commission
22 grant no action relief to small covered swap entities

1 to allow them to rely on their covered swap entity
2 counterparties for purposes of calculating regulatory
3 initial margin. Many of the Phases 5 and 6 small
4 covered swap entities coming into compliance with the
5 IM requirements have elected or intend to use the grid
6 method for calculating regulatory IM, whereas a
7 majority of the larger covered swap entities are using
8 is the ISDA SIMM model. Absent the recommended no-
9 action relief, this conflict could create potential
10 barriers to Phases 5 and 6 small covered swap entities
11 from being able to engage in in-scope swap
12 transactions.

13 Our final immediate-term recommendation is
14 for at least Phases 5 and 6 to grant a one-time, up to
15 six-month's grace period for compliance with the margin
16 rules, starting from the date that the regulatory IM
17 for a relationship has exceeded the \$50-million IM
18 threshold. While we acknowledge and appreciate the
19 actions already taken by the Commission and urge their
20 adoption of the one-year extensions of the Phases 5 and
21 6 compliance phase recently recommended by the BCBS-
22 IOSCO revised margin framework in relation to the

1 COVID-related pandemic, there are still significant
2 challenges for market participants to complete the
3 necessary documentation and operational setups on a
4 timely basis without -- notwithstanding their best
5 efforts to do so.

6 For example, it's estimated that for the
7 account opening process, document negotiations, and
8 operational setup, it could take up to 12 to 18 months
9 to complete given the large swell of new market
10 participants and trading relationships coming into
11 scope in Phases 5, 6, and beyond, and the extensive due
12 diligence, and background credit checks, and
13 operational checks that custodians will need to
14 complete on clients with whom they do not have prior
15 relationships. Additionally, with a compressed time
16 frame between the AANA measurement period and the
17 associated compliance dates, some financial end users
18 may not know with any certainty if they're in scope or
19 not until the end of the AANA calculation period, which
20 is potentially just three months before the compliance
21 date. This is especially true for SMA clients who need
22 to source the notional exposure data from all of their

1 asset managers, and then calculate the aggregate AANA
2 or material swap exposures, not only under the U.S.
3 margin rules, but potentially across all other relevant
4 jurisdictions, using different methodologies and
5 calculation periods.

6 This is especially challenging as some
7 custodians have set deadlines well before the end of
8 the AANA or material swap exposure measurement period
9 for the necessary documentation and operational setups
10 to be complete. And just to be clear, the parties
11 would be expected to begin exchanging initial margin as
12 soon as they're ready to do so during the six-month
13 grace period rather than delaying the exchange of IM
14 until the end of that period. This was intended to
15 strike the right balance between, on the one hand,
16 providing a failsafe for market participants facing
17 hurdles despite their best efforts to comply, and, on
18 the other hand, ensuring the exchange of IM is not
19 unduly deferred.

20 Having gone through our immediate-term
21 recommendations, I'll now give a brief overview of our
22 later-term recommendations, the first of which is to

1 permit each SMA client to be treated as a -- permit
2 each SMA client mandate to be treated as a distinct
3 entity to which a separate regulatory IM threshold
4 would apply. Or, alternatively, subject to meeting
5 certain conditions, allowing covered swap entities and
6 managers of SMA clients the option, but not the -- the
7 option, but not the obligation, to apply a flat IM
8 threshold of \$10 million per mandate.

9 Just as covered swap entities and managers
10 confronted challenges in 2017 in having to share the
11 total \$500,000 minimum transfer amount for a common SMA
12 client, which, by the way, led to the CFTC No-Action
13 Letter 17-12, the same issues exist with having to
14 share and monitor against the aggregate \$50 million IM
15 threshold across the managers for a common client due
16 to the same lack of transparency or control among those
17 managers. Absent the recommended relief, each manager
18 will be forced to make cost-benefit decisions as to
19 whether to put in place regulatory IM documentation and
20 custodial arrangements solely based on their silo
21 transactions.

22 Moreover, to the extent that covered swap

1 entities do not sub-allocate the IM threshold across
2 the various managers for a common SMA client, some
3 managers may be exposed to cliff edge scenarios where
4 they have to immediately stop creating or terminate or
5 novate existing transactions if the client's aggregate
6 regulatory IM inadvertently exceeds \$50 million. Such
7 accidental breaches could result from operational
8 constraints for covered swap entities in aggregating
9 and monitoring the regulatory IM on a real-time basis
10 across their consolidated affiliates, or based on
11 receiving end-of-day allocations of bunched orders or
12 block trades for managers.

13 Our next request is in respect of the
14 material swap exposure calculations and the post-phase-
15 in compliance dates and periods. Here, we recommend
16 that the Commission align the timing and methodology
17 for the material swap exposure calculations and the
18 post-phase-in compliance periods with the BCBS-IOSCO
19 framework and other global regulations. Under the
20 BCBS-IOSCO framework and the rules of all other non-
21 U.S. jurisdictions, the AANA amount is to be calculated
22 during the months of March, April, May, and based on

1 month-end averages, unlike the U.S., which is based on
2 daily averages.

3 Additionally, under the BCBS-IOSCO framework,
4 the post-phase-in compliance periods remain from
5 September 1st through August 31st of the following
6 calendar year, whereas the U.S., EU, and Switzerland
7 moved to a January 1st to December 1st compliance
8 period. These differences in the U.S. margin
9 regulations create complexity and confusion, and could
10 lead to additional costs and compliance challenges for
11 market participants who will likely be subject to
12 margin requirements in multiple global jurisdictions,
13 based on their own domicile and -- or principal place
14 of business, as well as those of their counterparties.

15 Next, in relation to the minimum transfer
16 amount, the Margin Subcommittee asks the Commission to
17 codify prior CFTC Staff Letters 17-12 and 19-25, which
18 allowed covered swap entities and managers for SMA
19 clients the option of applying the flat IM and VM MTA
20 of \$50,000 per each mandate, and the ability to split
21 the maximum allowable MTA between initial margin and
22 variation margin. As no-action relief can be revoked

1 or expire, codifying these changes would provide
2 certainty to market participants as they negotiate
3 collateral documentation and invest in operational
4 builds. While 17-12 is not time bound, the relief
5 granted under the 19-25 expires on December 31st, 2021.

6 And finally, in relation to FX, we urge the
7 Commission to continue to reassess the market impact,
8 especially on small financial end users, of requiring
9 -- of requiring deliverable FX forwards and swaps be
10 included in the material swap exposure calculations,
11 and consider an amendment to the margin rules to
12 exclude deliverable FX from such calculations.
13 Although deliverable FX is not subject to the
14 regulatory IM requirements, its inclusion in the
15 material swap exposures calculations will cause a
16 significant number of small financial end users to be
17 scoped into the remaining phases.

18 According to the CFTC's Office of the Chief
19 Economist, 200 of the 700, or approximately 30 percent,
20 of the financial end users in what are now known as
21 Phases 5 and 6, will have material swap exposures due
22 to deliverable FX. While many of these end users do

1 not pose material systemic risks, and are unlikely to
2 exceed the \$50 million regulatory IM thresholds, they
3 still will be subject to the operational compliance
4 burdens of monitoring regulatory IM levels on an
5 ongoing basis. Additionally, while some end users may
6 trade a limited amount of in-scope products in addition
7 to FX, they will likely be de-prioritized by their
8 covered swap entity counterparties in setting up the
9 necessary documentation and custodial arrangements,
10 which, in turn, could negatively impact their
11 performance.

12 Now, this concludes our list of
13 recommendations outlined in the report. With that,
14 please note that on April 23rd, 2020, the Subcommittee
15 on Margin Requirements for Non-Cleared Swaps voted to
16 adopt the Recommendations to Improve Scoping and
17 Implementation of Initial Margin Requirements for Non-
18 Cleared Swaps, and referred the recommendations to the
19 GMAC Committee for consideration. I thank you again
20 today for your time. I'll stop here for -- to open it
21 up for any questions from the Commission or members
22 from the GMAC Committee.

1 MS. KARNA: Thank you, Ms. Yun, for the
2 comprehensive presentation and your leadership. And
3 thank you again to all Subcommittee Members for your
4 time, effort, and thoughtful insights that went into
5 your report. Before I open the discussion up, I'd like
6 to turn the agenda over to Warren Gorlick for a
7 Subcommittee roll call update.

8 MR. GORLICK: Thank you. I just want to note
9 that the following additional people who are
10 Subcommittee members have indicated the presence on the
11 call, who were not present when we did the earlier roll
12 call. And that is Mr. Rosario Chiarenza, Morgan
13 Stanley; Ms. Betsy Cochrane, Barings; Mr. Dominick
14 Falco, BNY Mellon; Ms. Alessandra Riccardi, NFA; Mr.
15 Andrew Smith, Virtu Financial; Mr. Nick Steele,
16 Barclays; Ms. Christine Stevenson, BP Energy; and Mr.
17 Chris Walsh, AcadiaSoft. And with that, I will turn it
18 over to Andree Goldsmith, who has an additional update.

19 MS. GOLDSMITH: Thanks, Warren. Just two
20 additional GMAC members that I want to note their
21 presence on the call: Gerry Corcoran, R.J. O'Brian and
22 Associates, and Joe Nicosia, Louis Dreyfus Company.

1 And now, I'll turn it back to Angie. Thank you.

2 MS. KARNA: Thank you, Andree. At this time,
3 I'd like to open the floor for discussion of some key
4 questions that arise from the Subcommittee's
5 recommendations and the comments already provided
6 today. To start off with, to the extent that the
7 Commission implements the BCBS-IOSCO recommended
8 extension of Phases 5 and 6 to 2021 and 2022,
9 respectively, is there still a need for a grace or
10 forbearance period as referenced in the Subcommittee
11 report, and if so, why?

12 MS. YUN: Thank you for that question, Ms.
13 Karna. I'll turn it over to my colleague, Betsy
14 Cochrane, from Barings, to see if she would like to
15 provide any initial thoughts. Oh, apologies. I
16 misspoke. I meant Darcy Bradbury from D.E. Shaw.

17 MS. BRADBURY: Hi, it's Darcy. Can you hear
18 me?

19 MS. KARNA: Yes, we can Darcy. Thank you.

20 MS. BRADBURY: Great. It's kind of
21 complicated, the whole chat function, so. Yeah, it was
22 interesting. The Committee spent a lot of time

1 thinking about this, and, over the deliberations,
2 actually narrowed our recommendation. And we really
3 focused on this sort of big crowd, small pipe problem.
4 As Wendy noted in her summary, there's a pretty long
5 lead time in this period when there's so many hundreds,
6 you know, potentially thousands of entities who are
7 going to try to get up and running. And so the
8 custodians, and I don't mean to blame them -- I think
9 they're kind of the people who see the whole process --
10 have suggested a time period of potentially eight
11 months or more to if -- before the deadline if you want
12 to get in.

13 And the thing is there's a -- that can
14 change, and because of changing facts, someone might
15 not be in the queue in time to actually make the
16 deadline. So Wendy mentioned the AANA measurement
17 period, particularly I would say for kind of less-
18 engaged entities who may be somewhat surprised or have
19 a complicated process to figure out if they're actually
20 in scope. But you could also have the situation where
21 you get a new mandate should you not be able to do
22 business with a new client for six, or 12, or 18 months

1 waiting to try to get in. You could have -- you want
2 to launch a new fund. If you wanted to launch a new
3 fund starting in June before the September deadline,
4 you would literally not be able to do that and might
5 end up having to wait a full nine or 12 months.

6 You might have brokers that you currently
7 just do a modest amount of business with that you want
8 to do more business with. Maybe one of your other
9 brokers has a financial instability. You know, we
10 won't wish that on anyone, but, you know, things are
11 changing rapidly. You could have facts that actually
12 change that mean that you weren't in the queue soon
13 enough. And so we think for those situations, as long
14 as the parties are working diligently to get into --
15 they're in the queue. They're starting the process.
16 They're working hard. But to make them halt all
17 business for potentially a sustained period of time
18 because they weren't in the queue, they didn't
19 anticipate this problem eight to 12 months before the
20 deadline, seems unreasonable, particularly, you know,
21 given the overall kind of risk that any one of these
22 entities posed.

1 So we do think that the idea that entities
2 have to be working diligently to come into compliance,
3 and as soon as they do, they have to start posting
4 margin, so it's not like they get an automatic six-
5 month extension. So that was really our thinking about
6 this. We are hopeful that after Phase 6 and the sort
7 of, you know, cleanup period after that, that this
8 won't continue to be something that the market needs.

9 MS. YUN: Thank you, Darcy. I'll also see if
10 -- is Dominick on from BONY? I think he was hoping to
11 add some thoughts from a custodian's perspective as
12 well.

13 MR. FALCO: Yes, Wendy, I'm on the line. Can
14 you hear me?

15 MS. YUN: Yes, thanks.

16 MR. FALCO: Oh, okay. Great. Great. So,
17 yes, I think Darcy's points are all, you know, very
18 important for us to consider. I think from the
19 custodian's perspective, looking back at previous
20 phases, a couple of things, or a couple of facts, came
21 out of the earlier phases where, in fact, we were
22 dealing with fewer counterparties that needed to comply

1 with the regulations. In particular, the KYC process
2 can be long and drawn out, especially with entities
3 that may be in higher-risk jurisdictions as determined
4 by their respective custodians.

5 Remember in this case that the collateral
6 provider is the one that chooses the custodian. The
7 collateral receiver needs to sign up with a custodian
8 of the collateral provider's choosing, which means in
9 the case of the custodian, it is highly likely, and
10 certainly we've seen this in previous phases, that
11 entities that are brand new to the custodian will come
12 in as a collateral receiver or secured party. That
13 requires the custodian to perform KYC due diligence for
14 that entity, and that can take a fair amount of time.

15 In addition, because it is, in fact, the
16 collateral provider that chooses the custodian to post,
17 the collateral receiver will need to sign documentation
18 with a variety of custodians outside of their own main
19 operating custodian or custodians. So that means that
20 the collateral receiver in these -- in these pairings,
21 as we call them, may very well need to do KYC on a new
22 custodian that's holding assets on their behalf that

1 have been pledged to them by their -- by their
2 collateral provider or counterparty in the transaction.
3 So there's a fair amount of work on the KYC side from
4 both -- from both parties being the new participant
5 under the regulations in Phase 5 and Phase 6, as well
6 as the custodian.

7 Also, you know, I think we've added some
8 flows in terms of the required custodial documentation
9 in addition to any account control agreements that are
10 out there where, just as you -- as you deal, say,
11 predominantly with maybe a U.S.-based custodian, once
12 you start to deal with collateral providers, your
13 counterparties that may be using either Brussels-based
14 or Luxembourg-based custodians to provide collateral,
15 there's extra documentation that needs to go into the
16 pack of documents that need to be agreed prior to the
17 exchange of collateral. So it's the combination of the
18 KYC process that could be required on both sides, plus
19 the potentially exhaustive number of documents that
20 need to be exchanged from both the provider side and
21 the receiver side in each pairing because, remember, we
22 do -- we do it on both sides. Those particular items

1 really drag out the process for some entities to get up
2 and running in order to exchange collateral.

3 You know, with that, if there's any other
4 questions on it, I'd be happy to explain more.

5 MS. YUN: Thanks, Dominick. It's Wendy Yun
6 again. I would say also for our own proprietary funds,
7 it's easier to know in advance whether or not you think
8 a fund might be close to or exceeding both the AANA
9 thresholds as well as the reg IM thresholds. However,
10 with respect to SMA clients, you really don't have that
11 level of transparency because you don't have any
12 knowledge of the trading activity outside of your own
13 mandates. And so when you do get that information from
14 clients, you're kind of in a scramble to now quickly
15 get the documentation in place. You have to have
16 certain -- additional conversations with the clients
17 about whether or not they want to use their own
18 custodian or using a tri-party collateral agent. And
19 we don't typically, as asset managers, have the
20 authority to negotiate these types of arrangements for
21 clients, so there might be also additional
22 documentation and discussions about amending your

1 authority under your investment management agreements
2 or coming up with all the other necessary setups in
3 order to do -- to engage in the tri-party arrangements
4 on their behalf. And, again, oftentimes you may not be
5 told until very close to the end of the AANA
6 calculation period if they plan to be in or not.

7 MS. KARNA: Thank you, Wendy and fellow
8 Subcommittee members. Any other thoughts on this
9 before we switch topics?

10 MR. YAMADA: Hi. This is Masi Yamada from JP
11 Morgan. I just wanted to make a quick comment, but
12 before I do that, I did want to reiterate thanks to
13 Wendy and the other Margin Subcommittee members for all
14 of their -- clearly a lot of work went into the
15 preparation for this meeting. Very frankly, it's
16 extremely reassuring to see that in these unprecedented
17 times, we are stable to -- we're still able to advance
18 the regulatory agenda in a very being-like fashion. So
19 thank you, again, for all the hard work putting into --
20 that you put into this.

21 Just one counterpoint to the six-month
22 extension point. My only concern with it is, it's

1 clear that there's a lot of complexity, and we may need
2 more time. It's just that if the CFTC is the only one
3 that grants this extension, and other regulators, both
4 nationally and internationally, do not, we end up
5 having to comply anyway. And actually, in our
6 experience, when these sort of situations occur, when
7 we have split deadlines for the same item, it actually
8 adds operational complexity in the rollout and,
9 frankly, mistakes do happen and things get
10 misclassified. So in many ways, we would definitely
11 support the six-month delay so long as it was
12 coordinated with other agencies and we have that global
13 and, frankly, cross-regulated consistency.

14 MS. KARNA: Thanks, Mr. Yamada. For the
15 Subcommittee, there's a great deal of focus in your
16 report and in your comments on separately-managed
17 accounts. Can you just step back a minute and
18 highlight what makes separately-managed accounts
19 different from other potential participants in the next
20 two phases, like a large producer or a corporate end
21 user.

22 MS. YUN: Thanks, Ms. Karna. I'll turn that

1 over to Betsy Cochrane from Barings.

2 MS. COCHRANE: Hi, this is Betsy. Can you
3 hear me?

4 MS. KARNA: We can.

5 MS. COCHRANE: Okay. Good. Thank you, and
6 thank you for that question. So separately-managed
7 accounts are typically utilized by large pension funds
8 and other types of institutional investors investing on
9 behalf of retail clients in order to provide diversity
10 within portfolios for retail investors and for 401(k)s
11 and retirement schemes. But what makes SMAs unique is
12 that it's a type of vehicle set up by investment
13 managers to permit these types of large pension funds
14 to get exposure to particular strategies at reduced
15 fees oftentimes, and also without having to expose
16 their investments to the liquidity risks of other
17 investors so that they can maintain the diversity
18 within their portfolios in a more controlled way.

19 And these are -- these are valuable
20 instruments for these types of larger pension funds and
21 also other types of retirement accounts where the
22 investment managers are really looking to get diversity

1 across a number of different managers at -- in a way
2 that is economically beneficial to the underlying
3 investors.

4 MS. YUN: Hi, it's Wendy Yun, too. I would
5 just -- I would agree with everything that Betsy has
6 highlighted. Also, I think as we are approaching
7 Phases 5 and 6, there are more separate accounts that
8 are going to be brought into scope as a result of the
9 drop of the AANA thresholds down to \$50 billion and \$8
10 billion. I believe even in the CFTC margin studies, you
11 know, there's discussions about how there are over
12 7,000 IM relationships that will be brought into scope,
13 you know, 200 in Phase 5 -- 200 new entities in Phase 5
14 and 500 entities that would be captured in Phase 6.

15 I think the concern or the difference between
16 corporate end users or large producers is that, in many
17 cases, those type of entities either trade for
18 themselves or may operate through a single or a limited
19 use of asset managers, whereas SMAs, or institutional
20 investors, pension funds, and others for
21 diversification, you know, reasons and otherwise may,
22 you know, hire multiple asset managers. And so having

1 to comply with some of the requirements under the
2 margin rules, such as having a consolidated, you know,
3 IM threshold, a consolidated AANA threshold
4 calculation, those require a lot of coordination and a
5 lot of aggregation by those clients of the different
6 trading activities of their different managers. They
7 themselves don't have that information at hand, and
8 they don't -- they're not usually involved in the
9 actual trading itself.

10 So, you know, for them, they have to collect
11 the information, aggregate it, and then distribute it
12 back out to their swap counterparties as well as their
13 asset managers. And it's those types of requirements
14 where you're measuring on an aggregate basis under the
15 Margin Rules that make it that much more difficult for
16 the, you know, the separately-managed account clients
17 to comply with.

18 MS. KARNA: Great.

19 MS. VEDBRAT: Angie, I have a question
20 regarding the separately-managed accounts.

21 MS. KARNA: Yes, please, go ahead, Ms.
22 VedBrat.

1 MS. VEDBRAT: I actually have, you know, a
2 few sub-questions. You know, the two options that, you
3 know, that were suggested, you know, one was to -- one
4 was to consider each SMA client as a distinct, you
5 know, regulatory client, and the other -- the second
6 option was to have a flat \$10-million threshold, you
7 know, which was not an obligation. It's an option, but
8 it's not an obligation.

9 In that second scenario, by giving \$10
10 million flat, you know, how do we differentiate, you
11 know, the creditworthiness or the amount of trading
12 that might be done, you know, with one, you know, asset
13 manager, you know, relative to another, because in many
14 cases, you know, you may be using, you know, swaps as a
15 hedging instrument and rely on the expertise, you know,
16 of one or two asset managers, and not all, you know --
17 not all the asset managers that you may have an SMA
18 account for.

19 Then the other thing is, I think, you know,
20 from a, you know, asset management perspective and, you
21 know, trading in general, it is important that you have
22 certainty, you know, of what is to be expected, and,

1 you know, there is continuity of your ability to hedge.
2 So, you know, a concern that I would have in that, you
3 know -- in the second option is that, you know, as
4 Wendy mentioned, that there could be scenarios where
5 there's a cliff, you know, a cliff edge, issue where
6 you for a period of time may not be able to trade
7 because another SMA, you know, entity might have, you
8 know, exceeded the threshold limit, which would stop
9 all entities or all asset managers to trade. So how
10 would we manage that?

11 And also who -- you know, in these scenarios,
12 who would be the accountable party to make sure that,
13 you know, there is aggregation of the \$50 million
14 happening on a timely basis? And, more importantly,
15 also to be making sure that, you know, the various
16 asset managers are aware of that in order to avoid, you
17 know, a certain threshold, you know, a sudden \$50-
18 million threshold without having documentation in
19 place? I know I have a few questions in there.

20 MS. YUN: No. Thank you for that. Maybe if
21 we can try to attempt -- I'll try to attempt to unpack
22 and answer some of those questions and defer to some of

1 my colleagues to also chime in. In terms of the
2 request for the -- either treating each mandate as
3 having its own regulatory IM threshold or the
4 application of a flat \$10 million IM threshold per each
5 mandate relationship with a dealer, that came out of
6 the concerns that you highlighted there in terms of the
7 fact that it is very difficult and challenging for the
8 covered swap entity and the managers to be able to
9 monitor the aggregate \$50 million, and to do so on a
10 dynamic basis.

11 Many covered swap entities don't have a
12 single trading entity that trade derivatives or in-
13 scope products, but instead may have many different
14 desks across different divisions that are trading with
15 managers for that same common client. And to be able
16 to aggregate those numbers on a real-time basis
17 throughout the day to make sure that they don't have
18 any kind of inadvertent breach is very difficult. It
19 also could come, as I mentioned earlier, where, you
20 know, in many of the asset managers' trading
21 activities, we trade in large block trades throughout
22 the day, and then only allocate to the individual

1 accounts at end of day. So dealers may be getting that
2 information on an end-of-day basis and then realizing
3 that some of these trades are being allocated to
4 accounts that are already kind of in the danger zone.

5 So the idea of the flat -- the flat IM
6 threshold of \$10 million was really to try to address
7 that to say, similar to the MTA, if you -- that dealers
8 would have the ability, but not the obligation, to
9 agree with managers for a separately-managed account
10 client, to using a flat IM threshold for each one of
11 the -- those relationships. And, therefore, each
12 manager would have the transparency and control of
13 their \$10-million sleeve and know when they're getting
14 closer to the danger zone so they could also be
15 monitoring when the -- when the client is getting close
16 to that number or that threshold, as opposed to just --

17 MS. VEDBRAT: Sorry. In that particular
18 case, wouldn't it be better to, you know, to not give
19 the option? I think that, you know, the dealers should
20 be required to give that information to the manager
21 because I think that's where you -- that's where
22 there's an introduction of, you know, not knowing, or

1 the certainty starts to become a little gray on the
2 asset management side.

3 MS. YUN: Yep. I think in a perfect world it
4 would be great to have a flat IM threshold or giving
5 some level of certainty for each manager for that
6 particular client as to what its reg IM threshold would
7 be. I guess the concern about making it mandatory for
8 dealers to have to actually provide the flat \$10
9 million IM threshold for each account is that it
10 doesn't offer the flexibility, and, in some
11 circumstances, it may warrant not using that flat IM
12 threshold.

13 So, for example, you could have a situation
14 where a client doesn't trade a lot of derivatives or
15 in-scope products except for through one single manager
16 out of the bunch. Excuse me. So it could be more
17 efficient for that manager -- for that dealer to agree
18 to allocating a larger sub-allocation of the \$50
19 million to a single manager and not allocating to
20 others, or allocating less to the other managers,
21 therefore keeping everyone below \$50 million. So there
22 could be other scenarios where it could warrant

1 something different from having the flat IM of \$10
2 million. Otherwise, you could have --

3 MS. VEDBRAT: Okay. So you're saying that
4 there -- I might have misunderstood then because, you
5 know, what you're saying is that, you know, you will
6 have certainty of what you're allocated. It just may
7 not be \$10 million. It could be \$5 million, it could
8 be \$15 million, depending on the interpretation of how
9 much business, you know, that asset manager would be
10 doing on behalf of that that -- you know, that end
11 user.

12 MS. YUN: Under the flat IM threshold of \$10
13 million, you definitely have that certainty. If the
14 dealers and managers do not agree to using the flat IM
15 option, then you would only have certainty if that
16 particular dealer does agree contractually with the --
17 either all or a subset of the managers as to what their
18 allocation of the IM amount could be. In some cases
19 they could decide to take different approaches with
20 different managers for that same client. It could be
21 for -- you know, five different managers for the same
22 client, they could choose to allocate and document with

1 one and only allocate a sub-IM threshold to another,
2 and for the rest of the managers, not provide any
3 allocation or any transparency as to how much they
4 would -- they can trade up to, and that they would just
5 monitor accordingly to ensure that the account in the
6 aggregate doesn't exceed \$50 million.

7 I'll ask, Sachiyo from BlackRock, would you
8 like to add anything on that?

9 MS. SAKEMI: Yeah, thank you. It's Sachiyo.
10 So I would say that the flat IA proposal, because of
11 the flexibility, one of the challenges from the asset
12 management side is that we do not know if we'll have
13 the \$10 million, but it does allow the dealer to right
14 size the allocation, depending on the strategy of the
15 manager, so there are pros and cons to the flexibility
16 of it. One thing that should be highlighted is that if
17 we were to get the flat IA proposal sanctioned by the
18 Commission, in order for each manager to maintain its
19 separateness in the event that a particular manager
20 happens to breach its threshold, we would still need
21 interpretation or sanctioning from the Commission that
22 the Commission views each separately-managed account

1 relationship as separate, so that in a -- in the event
2 that a particular manager breaches its sub-threshold,
3 it does not impact the activity of the other managers,
4 so as to avoid any cliff-edge events that Wendy
5 mentioned, and that there is continuity in trading for
6 the client.

7 MS. YUN: Thank you, Sachiyō.

8 MS. KARNA: Thank you, Wendy, and Supurna,
9 and others for your feedback. Just thinking about this
10 IM -- flat IM threshold a little bit more, I'm curious
11 about whether there was discussion about for SMA
12 clients, whether a flat IM threshold of \$10 million per
13 separately-managed account could result in an aggregate
14 uncollateralized regulatory IM going beyond \$50
15 million. In other words, you know, what would mitigate
16 against clients or managers intentionally setting up
17 additional SMAs for the same legal entity to avoid
18 being subject to a \$50-million dollar cap?

19 MS. YUN: Thank you, Ms. Karna. I'll turn
20 that over to Betsy.

21 MS. COCHRANE: Yeah, sure. That is -- you
22 know, obviously that is a risk. I don't think that any

1 manager would deliberately do that to evade these
2 regulations, and if they were to do that, the anti-
3 evasory powers that the Commission has and that
4 various regulators have could be brought in to bear.
5 What I -- what I think is important, particularly with
6 the flat IMA, is that it gives, you know, these types
7 of investors, institutional investors, pensions, and
8 that nature, the ability to achieve diversification
9 throughout their portfolio without having to worry
10 about narrowing their options in order to maintain --
11 of saying that we adopted the \$10 million to five
12 investment managers where their clients might be better
13 served by having, you know, six or seven, although I
14 think most SMAs -- most SMA clients typically have
15 somewhere in that ballpark, but, they could potentially
16 have more, and they could potentially have less, so it
17 is a risk.

18 But the uncollateralized risk is also ring-
19 fenced, although I know that that doesn't give
20 tremendous comfort across that particular entity. But
21 it is -- it is a situation where the risk associated
22 with that account and those trading strategies is ring-

1 fenced for purposes of recourse. But then we do have
2 exposure to other managers in their trading strategies
3 because if they were to breach -- if we weren't to have
4 this flat IM and they were to breach their particular
5 allocation, as both Sachiyo and Wendy rightly pointed
6 out, it would result in a particular manager not being
7 able to engage in appropriate hedging activities based
8 on the actions of others. As a fiduciary, that's a --
9 that's a very untenable position to be in.

10 MS. YUN: And it's Wendy Yun. I would agree
11 with everything Betsy highlighted. I also would add
12 that there are some other natural guardrails that
13 exist, so while theoretically you could have a
14 situation where the aggregate does exceed \$50 million,
15 if you had separate managers and you allocate a flat IM
16 of \$10 million per each, I think one is the costs and
17 burdens of ongoing, keeping a separately-managed
18 account going, is -- would far outweigh this benefit.
19 You not only have to, you know, engage in a new
20 separate investment management agreement negotiation
21 with the manager and pay management fees for that
22 particular account and the trading of that account, as

1 well as the documentation of trading agreements and all
2 of the other activities, and the client would have to
3 allocate separate assets under management, or AUM, to
4 that particular account on a go-forward basis in order
5 to continue trading in an -- in that separately-managed
6 account, you also potentially have requirements for the
7 account to have to register, you know, based on its
8 commodity activities, as a CPO or CTA, as well as, you
9 know, potentially having audited financials and other
10 maintenance to keep it going as a separately-managed
11 account.

12 You also have, I believe, the credit analysis
13 and the determinations by the dealer counterparties.
14 You know, before even the margin rules have come out,
15 they have also been focused on, you know, making sure
16 to minimize systemic risk, especially, you know,
17 following the 2008 crisis. So they will already
18 require voluntary initial margin from some clients
19 based upon the types of trades they're doing, based on
20 the volatility of the leverage or the composition of
21 that particular strategy. So all of that said, again,
22 it's not obligated for the -- for the dealers to agree

1 to the flat IM, and we believe that there are already
2 natural guardrails that would prevent the client in the
3 -- in the aggregate exceeding \$50 million.

4 MS. KARNA: Great. Go ahead, Betsy.

5 MS. COCHRANE: I just wanted to add one thing
6 to what Wendy pointed out, too, in terms of the other
7 guardrails that are available, is that these clients
8 will obviously be posting variation margin on a daily
9 basis. So their mark to market exposure will be
10 covered, so there is, you know, substantial risk
11 mitigation in that type of margin being provided.

12 MS. KARNA: Thank you. And just to go back
13 to a point that Ms. VedBrat raised, who -- under this
14 proposal, who actually is responsible for compliance?
15 Is it the covered swap entity? Is it the client? Is
16 it the asset manager? Who's doing the monitoring?

17 MS. COCHRANE: Oh, go ahead, Wendy. I'm
18 sorry.

19 MS. YUN: No, no, no, please go ahead.

20 MS. COCHRANE: I think it would either have
21 to be the covered swap entity or the client, but I
22 think in this circumstance, it's more appropriate to

1 have it be the covered swap entity since they're the
2 entity over which the Commission has various
3 jurisdictions, and particularly because they're the
4 only ones who have the levels -- well, they and the
5 clients have the level of transparency. But I think
6 that CSEs have the level of transparency in a real-time
7 basis that would permit them to monitor this.

8 MS. YUN: And this is Wendy. I would agree
9 with Betsy. I think that, one, under the regulation
10 itself, the covered swap entity has a regulatory
11 obligation to do the monitoring. If the managers had
12 the flat IM threshold of \$10 million or were allocated
13 contractually some portion of the \$50 million, then
14 they would have the transparency and ability to control
15 their own trading activity up to that threshold amount.
16 So they could help with the covered swap entity in
17 monitoring that they, in relation to their mandates,
18 don't exceed that threshold.

19 It's a lot more difficult for the clients
20 themselves because, again, based on daily trading
21 activities and changes in market to market and market
22 volatility, to have them, you know, consume the data

1 from all of the different managers on a daily basis,
2 and then also be able to monitor and provide
3 information back to the -- to the managers is very
4 untenable, especially on a real-time basis, or a
5 dynamic basis. So, again, I think it's more likely to
6 fall on the shoulders of the covered swap entity, and
7 to the extent that the managers have transparency on
8 them as well.

9 MS. KARNA: Thank you. Mr. Yamada, since
10 this proposal will potentially fall on your shoulders
11 as a covered swap entity, perhaps you could provide
12 some feedback.

13 MR. YAMADA: I'm happy to. Yes, the
14 complexities of the problem have been very explicitly
15 and well documented in this report. In particular, the
16 Appendix C illustration very graphically and clearly
17 illustrates the sorts of issues that arise from these
18 information barriers. And, frankly, it's our view that
19 this is a very elegant solution to resolve that in a
20 way that balances both the overall goals of limiting
21 the buildup of unmargined risk, which is the regulatory
22 goal, but also, you know, doing something that,

1 frankly, acknowledges the practical realities of the
2 structure of the market here.

3 So both the intermediate solution proposed in
4 Section 1, which would kind of require a subdivision,
5 and then kind of, I guess, in some way compartmentalize
6 it, this actually is a better solution long term if
7 it's -- if it's able to be done broadly and embraced
8 broadly. It really -- it makes it much, much more easy
9 to implement on that client-by-client basis. The flip
10 side is if there's concerns about abuse and build up,
11 and, you know, people setting up 10 accounts to try and
12 do evasion, I think -- personally I think, given the
13 friction associated with setup of some of the accounts,
14 those cases will be few and far between. And, frankly,
15 if you -- you know, the CFTC would clearly be
16 monitoring this behavior, and if we see evasion or
17 abuse, it can always be revisited and tweaked. But
18 this really does feel like a very strong -- good
19 compromise that, I think, the dealer community could
20 easily embrace.

21 MS. YUN: Thank you for that feedback. I
22 would also add that I think dealers would not be -- you

1 know, would not have the appetite of setting up and
2 facing 10 separate, you know, mandates for the same
3 manager if there was not a separate trading strategy or
4 reasons for it. And also for the client, it actually
5 doesn't benefit them, too, because each mandate would
6 be margined separately, and so you will lose the
7 portfolio margin benefits of having to post margin on a
8 -- on a gross basis in relation to each account
9 separate from one another.

10 MR. YAMADA: Yeah, it's our view -- that's
11 right. Those frictions are very significant, and the
12 practical reality is we don't think this is a real
13 issue. It's kind of an imaginary issue. If we do see
14 it, obviously we can always clamp down on it, but it
15 feels like a very reasonable compromise.

16 MS. VEDBRAT: Would this solution provide the
17 certainty to the manager based on whatever their
18 allocated amount is, whether it's a flat \$10 million or
19 otherwise?

20 MS. COCHRANE: Yes, it would.

21 MS. KARNA: Great. Thank you all for your
22 very helpful insights on what is a complex problem. I

1 want to shift us to another one of the report's
2 recommendation relating to small covered swap entities.
3 In particular, how are smaller covered swap entities
4 disadvantaged by the requirement to use a quantitative
5 initial margin model like the ISDA SIMM if they don't
6 elect the grid regulatory schedule? And under the
7 Subcommittee's proposal, which relates to relying on
8 the calculation of their counterparty, would smaller
9 swap dealers have any ability to reconcile or dispute
10 margin calls if they were relying on their
11 counterparties' SIMM calculations?

12 MS. YUN: Thank you for that question. I'll
13 turn it over to Christine Stevenson from BP.

14 MS. STEVENSON: Thanks. Thank you very much.
15 Can you hear me?

16 MS. KARNA: We can.

17 MS. STEVENSON: Okay, great. The smaller
18 swap dealers may be disadvantaged overall by being
19 restricted from participating in certain swap
20 transactions. Commercially, being unable to agree on
21 the model to be used in an IM CSA may impact the number
22 of counterparty pairings among swap dealers, which not

1 only potentially impacts liquidity in the swaps market,
2 you know, depending on the size of those various
3 markets by consolidating trades to perhaps some of the
4 only larger swap dealers, it also limits the
5 opportunity of the smaller swap dealers to compete in
6 that space. And I think even if agreed between those
7 who choose SIMM, may not choose to transact with the
8 grid swap dealers in those cases because oftentimes the
9 grid method drives a higher calculation than the SIMM
10 model would, thereby causing some of those SIMM swap
11 counterparties to elect to pair with a different --
12 with a non-grid participant.

13 For some Phase 5 and 6 participants, the
14 choice to use grid is a reflection of the diverse
15 nature of their dealing activity and, of course, cost-
16 benefit analysis of implementation. This takes into
17 account their swap portfolio and the nature of their
18 swap counterparties. The upfront requirements of model
19 construction and approval, which it's probably
20 appropriate to note at this point, other jurisdictions,
21 including the EU, do not require the approval for these
22 types of models. But we do, and there -- the upfront

1 requirements to do that are very resource intensive
2 and, of course, must be weighed against the utility for
3 those swap dealers with portfolios consisting
4 potentially primarily of end users. You have examples
5 in some spaces where perhaps 90 percent of the swap
6 dealer's portfolio is end user, and with the 10 percent
7 of dealers or financial end users with which they may
8 have to post or collect IM, potentially they only meet
9 the \$50-million-dollar threshold in a handful of cases.

10 And so it is -- you know, it's a choice of --
11 a business choice that has to be made, and they're --
12 you know, therefore, because of the flexibility to
13 enable them to rely on the SIMM counterparties'
14 calculation, would enable them in those circumstances
15 to participate in the market and not be disadvantaged
16 by choosing a model that -- or making an election, I
17 should say -- that suits the vast majority of their
18 business activity.

19 With regard to reconciling, that is a
20 challenge. We do note that that is a challenge. I
21 think one of the options is that the smaller swap
22 dealer using the reconciliation process by which they

1 ensure completeness of their data set and transactions
2 -- in-scope transactions and material economic terms
3 can provide that, along with indicators that can be
4 developed using various VAR models, which would, you
5 know, give them directional indications, could be used
6 as a close proxy to determine -- to reconcile those
7 calculations.

8 Potentially, you know, some swap dealers,
9 while the model might not be approved, they have other
10 models that they that -- they used prior to the rule
11 coming into play, which they could use to gauge the
12 reconciliation process.

13 MS. KARNA: Thank you. Any other questions
14 or feedback on this recommendation?

15 (No response.)

16 MS. KARNA: Okay. Switching to, you've made
17 a recommendation relating to seeded funds. So if the
18 Commission were to exempt seeded funds from
19 consolidating their AANA thresholds with their
20 sponsors, is there any concern that market participants
21 might trade through seeded funds to avoid aggregating
22 their AANA thresholds?

1 MS. YUN: Thank you. I'll turn that over to
2 Betsy.

3 MS. COCHRANE: Hi. Yes, thank you. I think
4 much like the SMAs, the likelihood of that happening is
5 very low given the expense of setting up a seeded fund
6 and maintaining it and establishing all that
7 documentation. Even if one market participant were to
8 be acting nefariously, that really, I think, is very
9 highly unlikely to happen because these types of funds
10 are set up to allow U.S. fund sponsors to develop new
11 products and to establish track records in order to be
12 able to market the -- and distribute those products to
13 the market. And so these seeded funds serve a, you
14 know, very important function within the investment
15 management community to be able to innovate and develop
16 new markets, and react to what's going on in the world.

17 MS. KARNA: Thanks.

18 MS. COCHRANE: And there are also -- oh, I'm
19 so sorry. I just wanted to add that there are also a
20 number of regulatory, and contractual, and fiduciary
21 constraints that would make the likelihood of that
22 happening extremely, extremely low.

1 MS. KARNA: Great. Thank you very much. As
2 a general matter, would the recommendations being
3 proposed in the report also need to be adopted by the
4 U.S. prudential regulators, and, in some cases,
5 regulators in the EU, to have the desired effect? What
6 would be the market or other implications if the
7 Commission were to adopt the recommendations in this
8 report, but the U.S. prudential regulators, or
9 regulators in the EU, did not undertake consistent
10 actions? Would there be concerns of a lack of domestic
11 and, frankly, international harmonization?

12 MS. YUN: Thank you, Ms. Karna, for that
13 question. It's something that was largely debated by
14 the Subcommittee. I'll turn it over to my colleague,
15 Tara Kruse, from ISDA, to respond.

16 MS. KRUSE: Thank you, Wendy. The answer
17 here really varies depending on the recommendation. In
18 the case of codifying the MTA relief, for instance, it
19 would be beneficial for the CFTC to act alone since
20 it's already done so by issuing that relief, although
21 we would certainly welcome conforming amendments by the
22 USPRs. For other recommendations, the U.S. is the

1 global outlier, and, therefore, it can act alone, but
2 it would be very useful if at least the CFTC and USPRs
3 are aligned. That applies to recommendations regarding
4 the timing and methodology for material swap exposure
5 calculations, money market funds, seeded funds, and the
6 small swap dealer model requirements. Guidance or
7 forbearance on separately-managed accounts could also
8 be useful from the U.S. regardless of whether it might
9 be echoed from other jurisdictions.

10 For other changes, like global -- for other
11 changes, global alignment would be important, such as
12 the post-phase-in compliance periods for which it's
13 preferable that both the U.S. and EU align with the
14 BCBS-IOSCO standard.

15 MS. KARNA: Thank you, Tara. Commissioner
16 Stump?

17 COMMISSIONER STUMP: Thank you, Angie. I
18 think this is the appropriate time, given that we are
19 talking about the international application of some of
20 these rules, and, in some cases, the divergence from
21 international standards. In the context of seeded
22 investment funds, I was hoping that someone might

1 address the manner in which the standard -- the BCBS-
2 IOSCO standard, apply in this context.

3 MS. COCHRANE: Sure. I'm happy to take that.
4 This is Betsy Cochrane. So BCBS-IOSCO has exempted all
5 investment funds from having to be consolidated with
6 their sponsors, absent recourse against the sponsors.
7 So if the sponsor or investment manager guarantees that
8 particular fund, they are still going to be
9 consolidated. But absent that, all investment funds,
10 regardless of where they are in their seeding cycle,
11 would be exempt. And our recommendation is not as
12 broad as that, and that recommendation from BCBS-IOSCO
13 has been adopted by most of the major global
14 jurisdictions that we typically think about in this
15 context, such as the EU, Japan, Canada, Australia, et
16 cetera.

17 And we just essentially took the language
18 from BCBS-IOSCO and added on a simple phrase saying
19 from a three- -- for a three-year period following the
20 commencement of trading by that investment vehicle, to
21 capture what is the sort of standard seeding period for
22 investment firms in the industry, which is about three

1 years. So our recommendation is narrower than what our
2 global counterparts have actually adopted, recognizing
3 that there may not be appetite within the Commission or
4 other regulators to grant that broad -- the breadth of
5 what our global counterparts have done. But the --
6 both the CFTC and the prudential regulators have
7 granted this type of relief for seeded funds, as Wendy
8 pointed out, in the Volcker -- under their adopting
9 releases for the Volcker Rule -- sorry -- where they
10 recognize that for a period of three years -- the
11 prudential regulators and the Commission both recognize
12 that for a period of three years, that Volcker rule
13 requirements wouldn't apply to a seeded fund.

14 And also in the material swap participant
15 testing adopting release, the CFTC also recognized that
16 investment funds and subsidiaries should not be
17 considered when calculating a particular entity's MSP
18 exposure. So that is where our recommendation came
19 from was directly from the BCBS-IOSCO recommendation,
20 but we narrowed it to that three-year seeding period.

21 MS. YUN: It's Wendy. I'd also add that and
22 under some of the other jurisdictions, such as the EU,

1 EU-regulated funds are not subject to such
2 consolidation requirements when they are seeded as
3 well. Many people have decided for prior phases to
4 actually limit the counterparties with whom those EU--
5 regulated funds would face to only other EU or non-U.S.
6 dealers so that they could take advantage of that de-
7 consolidation for the fear of facing U.S. dealers and
8 then being subject to the rules. So you might see
9 liquidity shift if there is still that disparity
10 between the U.S. and European or other jurisdictional
11 rules related to seeded funds.

12 MS. KARNA: Thank you.

13 MS. BRADBURY: Hey, Wendy, this is Darcy
14 Bradbury. I had -- I think the question was in part a
15 little broader, which is about activity from other
16 regulators, and certainly there are a number of these
17 recommendations that we would -- we would encourage the
18 U.S. regulators more broadly to consider. And we're
19 hopeful that the CFTC would act, in their leadership
20 capacity, to begin this debate and discussion among the
21 regulatory community, who have worked through so many
22 of these issues on a harmonized basis.

1 In some cases, as Wendy has noted one, they
2 -- our suggestion would actually bring the U.S. -- if
3 it were adopted by all the U.S. regulators, would bring
4 us into harmonization with the rest of the world. So
5 the eligible collateral point, for example, is one
6 where Europe and their regulations already have this
7 included, and it was the U.S. regulators who deviated
8 from the kind of global consensus in terms of
9 constraining the types of money market funds that could
10 be used. In each case, both jurisdictions want you to
11 use local brands. So Europe wants you to use UCITS
12 money market funds, and the U.S. wants you to use U.S.
13 money market funds, but U.S. went away from the global
14 consensus in terms of the particular constraints on the
15 type of funds. So that would be an example where the
16 move would actually be bringing the U.S. closer to the
17 global consensus.

18 MS. KARNA: Great. Thank you all. Ms.
19 Belich, did you have some thoughts on this question?

20 MS. BELICH: Yes. Thank you, Angie. So
21 bringing it back to your original question on
22 coordination between the CFTC and the U.S. prudential

1 regulators as well as the global regulators, it just
2 kind of bears noting as well that as a non-U.S. bank,
3 firms like Royal Bank of Canada are in that unique
4 position of navigating multiple sets of rules at the
5 same time. So, for example, the oversight and
6 regulatory requirements of prudential regulators in our
7 home jurisdictions, including those for uncleared
8 margin requirements, swap dealer regulations
9 promulgated by the Commission, and U.S. prudential
10 regulations for uncleared margin requirements as we
11 have a wholly-owned subsidiary bank here in the US, as
12 well as any other jurisdictional requirements that may
13 be applicable to a firm's client and/or the trading
14 relationship. So, you know, it bears noting again that
15 this type of coordination is critically important, and
16 having that clarity and consistency between U.S.
17 regulators and global regulators is vital for non-U.S.
18 firms like ours to continue business and expand
19 business in the U.S., well as, more importantly, to
20 ensure compliance with U.S. regulations.

21 I'd like to bring it back to, as well, one of
22 the comments that was made at the top of the meeting

1 around operational risk considerations. Again, from
2 the large dealer perspective, this is critically
3 important as we think about some of the recommendations
4 contained in the GMAC Subcommittee's report. You know,
5 absent agency action on a number of these items, the
6 complex and overly burdensome regulatory and
7 operational issues will create obstacles for large
8 dealers as well as their clients, increasing costs and
9 decreasing liquidity. Again, as was mentioned, a
10 number of the regulatory obligations actually sit with
11 the dealer for these items, and so bringing that back
12 again to a forbearance period or six-month grace period
13 is critically important from a dealer perspective,
14 given that we do carry much of the regulatory
15 obligation and burden around these areas and these
16 recommendations contained in the report.

17 MS. KARNA: Thank you, Ms. Belich. I'd like
18 to open it up for any further questions or comments on
19 the Subcommittee's recommendations. I'll remind you,
20 you have a chat feature at the bottom of Webex, so if
21 you'd like to speak up, please let me know. And I'll
22 also apologize if I missed any questions earlier on. I

1 must tell you, between two screens, a paper script, a
2 mute button on my phone, I think I may have missed one
3 or two. So now is a great time to speak up again.

4 MS. YUN: It's Wendy Yun again. I would like
5 to echo the thoughts that were just expressed about the
6 dealer's obligations and the operational risks. I
7 think that also does, though, also translate to
8 additional challenges for asset managers in having to
9 comply with rules, especially since we face a lot of
10 dealers who are now dual headed, whether it be because
11 they may be European domiciled, but also registered as
12 covered swap entities with the CFTC. You may have now
13 a delineation or bifurcation of different rules that
14 they may apply in trading with different types of
15 clients.

16 One of the concerns that we have is, as we
17 trade in block trades and we don't delineate or don't
18 bifurcate our client base, but we trade them in blocks
19 based on common trading strategies, we could be trading
20 for U.S. and non-U.S. accounts at the same time with
21 any dealer counterparty. One concern is if dealers
22 don't have the ability to apply consistency across the

1 rule sets that apply to those trading relationships,
2 you could see situations whereby they would apply the
3 EU rules, for example, in relation to trading with
4 European clients and the U.S. rules in applying -- in
5 trading with U.S. persons. That would then cause
6 potential fragmentation of block trades, to have to
7 price them differently, trade them separately, margin
8 them differently, especially if there are still these
9 discrepancies or inconsistencies across some of the
10 regulations of different jurisdictions, especially in
11 terms of the types of eligible collateral, the timing
12 of the methodology used in determining the AANA
13 calculations, material swap exposures. So that does
14 also present, you know, risks to the end users as well
15 as asset managers acting on their behalf.

16 MS. KARNA: Thank you, Wendy. Ms. VedBrat?

17 MS. VEDBRAT: Yes, I have a question on, you
18 know, collateral. Give that there is going to be, you
19 know, an increase in the need for high-quality
20 collateral, you know, at the back of this rule, but,
21 you know, also in general, is there any concern that we
22 may have a shortage of high-quality collateral, and,

1 you know, would money market funds be able to, you
2 know, help alleviate some of that pressure if it -- if
3 they were eligible to post as collateral?

4 MS. YUN: Thanks for that question. Darcy,
5 did you want to take a stab at that, or I'm happy to.

6 MS. BRADBURY: Sure. I guess, one, market
7 funds are pretty widely used for this service now. I
8 don't have the numbers in front of me. Tara is kind of
9 the expert on these, but, you know, billions of dollars
10 are already pledged through these collateral
11 arrangements for uncleared swaps that are not mandated
12 by regulation. And most common thing people do when
13 you're an asset manager in that "voluntary IM
14 situation" is money market funds, and it's
15 exceptionally valuable as a tool to use. The report
16 details some of the benefits in terms of reduced
17 counterparty risk and ease, and it's a widely-used tool
18 now.

19 So we were -- you can imagine our kind of
20 surprise and disappointment when we learned that there
21 really weren't very many funds that currently fit under
22 the new rules. One custodial bank at a conference I

1 was at, back when one could go to conferences, said
2 they had done a comprehensive review of the documents
3 of hundreds of -- you know, the high-quality money
4 market funds that are eligible, and they could find
5 only, I think the number was three, at the time that
6 would qualify under these new, much more restrictive
7 rules.

8 And I also just think when you think about
9 all of the recent dislocations in the repo markets and
10 the Treasury markets, having access to a broader set of
11 money market funds that are -- have a long track record
12 and that we can feel comfortable with, we can do due
13 diligence on, will make us more comfortable. So I'm
14 not sure I addressed all the aspects of your question,
15 but it is a very established practice now. There's a
16 wide, you know, array of funds that asset managers can
17 research and choose from if the eligibility rules were
18 expanded to match the European rules, and we think it
19 would be a valuable tool. Some people may continue to
20 want to post Treasury securities directly if they have
21 them or other forms of cash, but I think this would be
22 widely adopted if it was available.

1 MS. VEDBRAT: Yeah, you did address it. My
2 question was actually at the back of, you know, in the
3 presentation, and I heard that most of the money market
4 funds would not be eligible as collateral under the
5 current rules. So, you know, it was more like we
6 actually should -- you know, we should, you know,
7 propose changes so that the money market funds could be
8 used because they are used today. And given the
9 increase in collateral, you know, I think we should
10 consider them to be essential as eligible collateral in
11 this space.

12 MR. FALCO: It's Dominick Falco here from
13 being BNY Mellon, and I completely agree with what
14 Darcy has said. I think, you know, from our experience
15 in the non-regulated IA market, substantially, you
16 know, money market funds account for, you know, much of
17 the collateral that's being segregated today. I would
18 also add that in terms of the Phase 5 clients that are
19 readying themselves for, you know, next year, there is
20 a substantial request for the use of money market funds
21 as they look at not only other forms of collateral, but
22 potentially simpler forms of collateral to mobilize,

1 you know, at cash collateral in their -- in their
2 bilateral world today.

3 And so, you know, it's a simple process to
4 simply move from cash to money funds and then post that
5 into the requirements for the regulated collateral. So
6 I would say that, yes, it would go a long way to
7 fulfilling any shortfall of available collateral that's
8 out there, and it's also a form of collateral that many
9 clients in the Phase 5 time frame are looking to employ
10 as soon as possible.

11 MS. YUN: This is Wendy Yun. I would echo
12 everything that has been raised thus far. I think
13 that, as many of you know, variation margin, most of
14 the buy-side community -- I think it's over 75 percent
15 -- are still using cash as eligible margin for
16 variation margin in relation to voluntary initial
17 margin before the margin rules were ever promulgated in
18 any jurisdiction. Many people who are posting
19 voluntary initial margin in setting up, you know,
20 voluntary IM segregation arrangements were taking
21 advantage of the money market fund sweep arrangements
22 so that they could still continue to use cash and to

1 meet margin deadlines on a timely basis, especially as
2 those deadlines continued to contract under
3 regulations.

4 That afforded us the ability to use
5 collateral management operations personnel to, you
6 know, to transfer the cash on a timely basis, avoid any
7 kind of settlement issues, avoid any odd lot sizes, and
8 avoid having to use traders to go and buy and sell
9 treasuries and other types of -- other forms of non-
10 cash collateral to meet the IM requirements. Here,
11 that's what we're -- that's what the current practice
12 has been for voluntary initial margin. If we were to
13 severely limit the eligibility of money market funds in
14 relation to regulatory initial margin, now you have a
15 bifurcation between what was posted for voluntary
16 initial margin versus what's required for mandatory
17 initial margin. You could see that causing some
18 friction.

19 And also, again, the idea of managers and end
20 users having to now go out and buy the other forms of
21 non-cash collateral to hold them, even though they may
22 not be part of the investment strategy of the

1 particular fund or client, it could also, you know,
2 result in any kind of tracking errors with benchmark
3 strategies. It could, you know, result in drag and
4 performance and other errors. So we would think that
5 the ability to use money market funds, continue to post
6 cash and have it swept into money market funds that we
7 have agreed to with the secured parties or the dealer
8 counterparties, would provide us with the most
9 efficiency and ability, you know, to diversify the
10 types of eligible collateral that we can select from.

11 MS. KARNA: Thank you very much. Does anyone
12 else have any further questions or comments on the
13 Subcommittee's recommendations?

14 COMMISSIONER STUMP: Angie, this is
15 Commissioner Stump again. I had a question. It's
16 probably more technical than substantive. But with
17 regard to the material swap exposure calculations and
18 the calculation -- the period of calculation and the
19 method of calculation, as I understand it, the U.S. and
20 Europe have taken a different approach from that that's
21 outlined in BCBS-IOSCO's framework. In order to
22 correct the situation, it is possible that we would all

1 be going at different times and seeking to make this
2 better.

3 In doing so, practically, I'm curious what
4 sorts of things we can anticipate. The report speaks
5 to, you know, entities not being able to take advantage
6 of substituted compliance, for example. But I was just
7 wondering if someone could lay out -- this seems like a
8 fairly difficult thing to effectuate given the number
9 of different regulators that would need to respond. So
10 I want to make certain that if this is submitted as a
11 recommendation and the Commission takes it up, that we
12 fully appreciate that the report has given, I think, a
13 number of different manners in which we could handle
14 this, depending upon the activity of our other fellow
15 regulators. So I was hoping someone could just speak
16 more generally to the practical challenges, such as
17 substituted compliance, operational challenges.

18 You know, one the things mentioned in the
19 report that seems quite alarming to me is that this
20 could result in disputes with regard to IM amounts, and
21 we certainly want to consider all of that given that
22 the markets are global. So I was just hoping someone

1 could elaborate a bit more on some of those more
2 practical challenges with regard to these different
3 calculation periods and methods.

4 MS. KRUSE: Commissioner Stump, it's Tara
5 Kruse from ISDA, and I'm happy to speak to that. Well,
6 so to be clear, there are sort of two aspects here.
7 One is the material swap exposure calculation for which
8 the U.S. is the outlier globally. The EU doesn't align
9 with the U.S. on this front in terms of the timing and
10 methodology, right? So the U.S., once we -- you know,
11 once we move forward to Phase 6, uses the June to
12 August time period for that calculation. Also requires
13 a daily averaging, whereas BCBS-IOSCO and all other
14 major jurisdictions use the March to May period and use
15 a month-end averaging.

16 So for this calculation, what it means is
17 that on a forever-going-forward basis, market
18 participants who are, you know, near towards the bottom
19 threshold of \$8 billion, and there's many of them,
20 right, will have to, you know, every year, to the
21 extent they're caught by more than one regulation, have
22 to run multiple separate calculations at different time

1 periods, and using different methodologies, and do
2 separate notifications to their dealer counterparties
3 regarding any change to their status, whether that be
4 if they come into scope or they fall out of scope.

5 And then the other aspect that makes it
6 complicated is the bifurcation around post-phase-in
7 compliance dates. So under the BCBS-IOSCO framework,
8 once we get past Phase 6, every year the reassessment
9 regarding a party's AANA calculation, or MSE in the
10 U.S., happens at -- would become effective each
11 September. So any changes would happen each September,
12 so you keep the cycle that we've been doing now from
13 September 1st to August 31st. But the U.S. and the EU
14 and Switzerland shift after the phase-in period to a
15 calendar year compliant cycle. Other jurisdictions do
16 not.

17 So when it comes to the application of a
18 change to somebody's status, you could have that change
19 apply at different times in different jurisdictions,
20 which means the subset of transactions subject to
21 regulatory margin in one jurisdiction might be
22 different from the subset of transactions eligible --

1 subject to regulatory IM in another jurisdiction. This
2 prospect of tracking those separate jurisdictional
3 differences on the netting sets is probably going to be
4 difficult for some counterparties, and is an
5 opportunity for parties to misalign the transactions
6 that they include in a calculation, and could lead to
7 disputes. And, as you mentioned a moment ago, there's
8 also this question of whether it also could interfere
9 with the ability for you to apply substituted
10 compliance because you might be coming into scope of
11 the initial margin requirements in one jurisdiction,
12 four months differently time frame-wise from another
13 jurisdiction.

14 So hopefully the U.S. will consider aligning
15 with the BCBS-IOSCO framework on the compliant states,
16 and we would want the EU and Switzerland to do that as
17 well. That will make it much more streamlined for
18 market participants to monitor any changes to those
19 transactions and parties which are in scope for initial
20 margin. If for some reason the U.S. and EU don't align
21 with the compliance periods, then at least we would ask
22 that the U.S. align with the EU and Switzerland in

1 terms of the date for the first post-phase-in
2 compliance periods, meaning Phase 6 commences September
3 1st, which means if you switch to a January 1st date in
4 the U.S., it's only four months later that you now
5 potentially have a shift again for parties coming in or
6 out of scope after only four months, whereas in the EU
7 and Switzerland, they are going to bump that, right?
8 Their perspective is it that that would not happen
9 until the following year, so, essentially, you have a
10 16-month Phase 6 before you would apply changes. So it
11 would be very beneficial to have this be aligned at
12 least across the EU, Switzerland, and U.S. to the
13 extent the compliance periods cannot be aligned.

14 COMMISSIONER STUMP: Thank you.

15 MS. KRUSE: My pleasure.

16 MS. KARNA: Thank you. Does anyone else have
17 any further questions or comments on this topic?

18 (No response.)

19 MS. KARNA: All right. GMAC Members, since
20 there are no further questions or comments, is there a
21 motion for the GMAC to adopt the Subcommittee's report
22 and recommend to the Commission that it consider

1 adopting the report's recommendations?

2 MR. TWIGGS: This is Thane Twiggs from
3 Cargill. I'd like to thank the Subcommittee for their
4 work and their report. And I would move that the GMAC
5 adopt the Subcommittee report, and respectfully
6 recommend to the Commission that it considers adopting
7 the recommendations as well.

8 MS. KARNA: Thank you, Thane. Any second to
9 that motion?

10 MS. BRADBURY: This is Darcy Bradbury. I'd
11 like to second the motion, and also kind of second the
12 sentiments that have been expressed, which is that I
13 had the privilege as a GMAC member to serve on the
14 Subcommittee, and it was very different than any other
15 kind of comment period or similar sort of effort I've
16 been involved in. There was a terrific diversity of
17 perspectives on the panel, and I think Commissioner
18 Stump and her team did a really good job of making sure
19 that people at firms that represent all different parts
20 of this industry -- from technology providers, brokers,
21 asset managers, end users, custodians, and others --
22 were there, and we learned from each other. And I was

1 very impressed also how the recommendations actually
2 changed and improved over the period of deliberations.
3 And so I commend them to the full Committee for
4 consideration and approval today.

5 MS. KARNA: Thank you, Darcy and Thane. It
6 has been moved and properly seconded that the GMAC
7 adopt the Subcommittee's report, and recommend to the
8 Commission that it consider adopting the report's
9 recommendations.

10 We will now take a vote on the motion. As a
11 point of order, a simple majority vote is necessary for
12 the motion to pass.

13 I will turn it over to Andree to conduct a
14 roll call vote.

15 MS. GOLDSMITH: Thank you, Angie. GMAC
16 members, when I call your name, please indicate your
17 agreement with the motion with "aye," disagreement with
18 "nay," or indicate "abstain" if you are abstaining from
19 the vote. Please remember to unmute your line to
20 indicate your vote and to re-mute your line once you
21 have finished voting.

22 I'll now conduct the roll call.

1 Chris Allen?
2 MR. ALLEN: Aye.
3 MS. GOLDSMITH: Edward Backer?
4 (No response.)
5 MS. GOLDSMITH: Ashley Belich?
6 MS. BELICH: Aye.
7 MS. GOLDSMITH: Shawn Bernardo?
8 (No response.)
9 MS. GOLDSMITH: Darcy Bradbury?
10 MS. BRADBURY: Aye.
11 MS. GOLDSMITH: Maria Chiodi?
12 MS. CHIODI: Aye.
13 MS. GOLDSMITH: Joe Cisewski?
14 MR. CISEWSKI: I'm a no, but I appreciate
15 everybody's great presentations and the hard work of
16 the Subcommittee.
17 MS. GOLDSMITH: Jim Colby?
18 (No response.)
19 MS. GOLDSMITH: Gerry Corcoran?
20 MR. CORCORAN: Aye.
21 MS. GOLDSMITH: Sunil Cutinho?
22 MR. CUTINHO: Aye.

1 MS. GOLDSMITH: Paul Hamill?
2 MR. HAMILL: Abstain.
3 MS. GOLDSMITH: Amy Hong?
4 MS. HONG: Aye.
5 MS. GOLDSMITH: John Horkan?
6 MR. HORKAN: Aye.
7 MS. GOLDSMITH: Adam Kansler?
8 MR. KANSLER: Abstain.
9 MS. GOLDSMITH: Angie Karna?
10 MS. KARNA: Aye.
11 MS. GOLDSMITH: Robert Klein?
12 MR. KLEIN: Aye.
13 MS. GOLDSMITH: Agnes Koh?
14 MS. KOH: Aye.
15 MS. GOLDSMITH: Ben MacDonald?
16 MR. MACDONALD: Abstain.
17 MS. GOLDSMITH: Joe Nicosia?
18 MR. NICOSIA: Aye.
19 MS. GOLDSMITH: Murray Pozmanter?
20 MR. POZMANTER: Aye.
21 MS. GOLDSMITH: Tom Sexton?
22 MR. SEXTON: Abstain.

1 MS. GOLDSMITH: Jessica Sohl?

2 MS. SOHL: Aye.

3 MS. GOLDSMITH: Thane Twiggs?

4 MR. TWIGGS: Aye.

5 MS. GOLDSMITH: Supurna VedBrat?

6 MS. VEDBRAT: Aye.

7 MS. GOLDSMITH: Masi Yamada?

8 MR. YAMADA: Aye.

9 MS. GOLDSMITH: Thank you, everyone. There
10 were 17 yes votes, one no vote, and four abstains.

11 MS. KARNA: Thank you, everyone. The ayes
12 have it, and the motion has passed. The report of the
13 Subcommittee on Margin Requirements for Non-Cleared
14 Swaps has been adopted by the GMAC, and the GMAC
15 recommends to the Commission that it consider adopting
16 the report's recommendations.

17 Chairman, Commissioner Stump, fellow
18 Commissioners, Andree, Warren, CFTC staff, and others,
19 I really want to thank the CFTC for continuing with its
20 important regulatory mandate, including by holding this
21 meeting given the challenging 100-percent remote
22 scenario that you're operating under. Your mandate is

1 incredibly important in these markets in these very
2 challenging times. GMAC members, speakers,
3 Subcommittee members, thank you all for your active
4 participation and valuable insights, especially given
5 the fact that this is a phone meeting versus the much
6 easier in-person meeting that we may be longing for. I
7 will now turn it over to Andree to finish out the day's
8 agenda.

9 MS. GOLDSMITH: Thank you, Angie, and I'm
10 going to turn it over to the Commissioners for any
11 closing remarks, starting with Chairman Tarbert.

12 CHAIRMAN TARBERT: Thank you so much. No
13 closing remarks for me other than to simply say that I
14 found this incredibly helpful, beneficial, and really
15 appreciate your viewpoints. And in the coming months,
16 we'll be obviously taking a very close look at the
17 report that you've adopted today to determine which, if
18 any, recommendations the Commission may proceed on. So
19 thank you so much.

20 MS. GOLDSMITH: Thank you, Chairman Tarbert.
21 Commissioner Quintenz?

22 (No response.)

1 MS. GOLDSMITH: Commissioner Behnam?

2 COMMISSIONER BEHNAM: Thanks, Andree, and a
3 quick thank you to everyone for their hard work. This
4 is a tremendously important meeting for us to listen
5 to. And like the Chairman said, look forward to
6 reviewing the recommendations in depth over the coming
7 days and weeks, and taking up what we think is
8 necessary and appropriate to stay within obviously the
9 mandate of the CFTC, but working with all of our
10 regulatees in the market to ensure safe and transparent
11 markets. Also, I'd like to just thank Commissioner
12 Stump for her leadership again and all those involved
13 in putting today's meeting together.

14 A great example of the importance of the
15 CFTC's advisory committees and the role it plays
16 certainly within the context of the CFTC's mandate.
17 But, of course, you know, with financial markets being
18 global in nature and very interconnected, these reports
19 have a much greater impact and effect on regulators,
20 both domestic and international. So certainly look
21 forward to reviewing them within the context of the
22 Commodity Exchange Act, but I'm sure others around

1 D.C., the country, and the world will benefit from this
2 report as well. Thank you.

3 MS. GOLDSMITH: Thank you, Commissioner
4 Behnam. Commissioner Berkovitz?

5 COMMISSIONER BERKOVITZ: Thank you, and
6 thanks, everybody, Commissioner Stump, and Andree, and
7 Angie, and everybody who worked hard to prepare the
8 report and have a very informative session today. I
9 look forward to studying the report in more detail
10 informed by today's discussion. Again, I'm sorry we
11 couldn't meet in person. In the absence of an open-
12 door policy, I have an open-phone policy, so I -- if
13 there's anybody who is interested in discussing this
14 further with me and my office, to give us a call, and
15 we look forward to speaking with you. And thank you,
16 everybody, again for an informative session.

17 MS. GOLDSMITH: Thank you, Commissioner
18 Berkovitz. Commissioner Stump?

19 COMMISSIONER STUMP: Thank you, Andree, and
20 thanks to all the Commissioners, and the Chairman, and
21 the members, and the Subcommittee members, for your
22 participation. Again, we wish we were all together in

1 person, but I think that the meeting went remarkably
2 well considering the circumstances. I feel as though
3 it's even more apparent now that after our September
4 meeting, we determined that there was a need to further
5 explore the complex and unique challenges for Phase 5
6 and Phase 6 entities in the context of the margin
7 rules. And I appreciate the hard work of the
8 Subcommittee and their really expedited attention to
9 the matters here. The Subcommittee only met for the
10 first time in January, so they've done a remarkable job
11 of pulling this together in a really short period of
12 time.

13 I also appreciate that this subject matter --
14 the subject matter of this report is more relevant to
15 certain of the Committee members than others, and I
16 appreciate that all of the members devoted time and
17 attention to the information. You know, previous
18 meetings and future meetings we've devoted to matters
19 such as clearing and swap data, and we will continue to
20 do so in hopes that the diverse -- the diversity of the
21 Committee is well utilized.

22 As we look at the lessons learned from the

1 recent market activities and the work of this
2 Committee, it is -- it is critically important, and I
3 think it's quite obvious that, based upon what Suyash
4 discussed in the first presentation, that we will have
5 lessons learned from the more recent market volatility
6 and the pandemic. And I know that the members of this
7 Committee stand ready and willing to assist the
8 Commission as we evaluate those going forward, and we
9 look forward to discussing those perhaps at the next
10 meeting.

11 So with that, I just, again, thank everyone.
12 I thank Andree, and Warren, and Carmen most especially
13 for their diligence in trying to get all of this pulled
14 together. And I also want to thank Suyash and Wendy
15 for their participation. Thank you very much.

16 MS. GOLDSMITH: Thank you, Commissioner
17 Stump. I also want to thank everyone for attending
18 today's GMAC meeting. This meeting is now adjourned.

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