U.S. COMMODITY FUTURES TRADING COMMISSION (CFTC)

GLOBAL MARKETS ADVISORY COMMITTEE (GMAC)

PUBLIC MEETING

Monday, November 6, 2023

11:36 a.m.

ATTENDEES:

COMMISSIONERS:

THE HONORABLE CAROLINE D. PHAM, Sponsor, Global Markets Advisory Committee

THE HONORABLE SUMMER MERSINGER, Sponsor, Energy & Environmental Markets Advisory Committee

BRIGITTE WEYLS, Designated Federal Officer

MARKET RISK ADVISORY COMMITTEE MEMBERS (In Person):

CHRIS ALLEN, HSBC

DARCY BRADBURY (Co-Chair), D.E. Shaw & Co.

NADINE CHAKAR, Securrency, Inc.

CHRIS CHILDS, DTCC

JASON CHLIPALA, Stellar Development Foundation

ADAM FARKAS, GFMA

SCOTT FITZPATRICK, Tradition Group

AMY HONG (Chair), Goldman Sachs

ANGIE KARNA, Nomura

JACQUELINE MESA, FIA

ERIK TIM MULLER, Eurex

ATTENDEES:

MARKET RISK ADVISORY COMMITTEE MEMBERS (In Person) [continued]:

DAVE OLSEN, FIA PTG
TETSUO OTASHIRO, JSCC
THOMAS PLUTA, Tradeweb
JASON SWANKOSKI, Morgan Stanley
BRAD TULLY, JPMorgan Chase & Co.
STUART WILLIAMS, ICE
CHRIS ZUEHLKE, DRW

MARKET RISK ADVISORY COMMITTEE MEMBERS (Virtual):

PERIANNE BORING, Chamber of Commerce
ISAAC CHANG, Citadel
GERALD CORCORAN, R.J. O'Brien and Associates
JOHN H. HORKAN, LSEG
KEVIN KENNEDY, Nasdaq
STEVEN KENNEDY, ISDA
AGNES KOH, SGX Group
MARY-CATHERINE LADER, Uniswap Labs
BEN MACDONALD, Bloomberg LP

ATTENDEES:

MARKET RISK ADVISORY COMMITTEE MEMBERS (Virtual) [continued]:

JOHN MURPHY, Commodity Markets Council

JOSEPH NICOSIA, Louis Dreyfus

CHRISTOPHER R. PERKINS, CoinFund

SACHIYO SAKEMI, BlackRock

ANDREW SMITH, Virtu Financial

JASON VITALE, BNY Mellon

JULIE WINKLER, CME Group

VADIM ZLOTNIKOV, Fidelity Investments

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P R O C E E D I N G S

MS. WEYLS: Good morning, and welcome to the third Global Markets Advisory Committee meeting of 2023.

Before we begin, for the record, we have 37 of 38 GMAC members in attendance, so I hereby call this meeting to order since we have a quorum, and separately, after each of the subcommittee recommendations, we will hold a vote. So we'll do all the presentations together, and then we will -- if moved for a vote, we will vote on all of them together. And I will now pass it to Amy and Darcy.

MS. HONG: Great. Thank you, Brigitte. It's a pleasure to be here today with Commissioner Pham, the sponsor of the GMAC, and Commissioner Mersinger. Before we begin, I would like to extend a warm welcome to Commissioner Pham. On behalf of the GMAC members, we're all looking forward to today's eight important subcommittee recommendations on the most significant markets issues across global markets to provide to the Commission for consideration. I'd also like to thank our GMAC members and presenters for their time and welcome all members to share their perspectives during our open discussion.

To begin the meeting, I'm pleased to recognize Commissioner Pham for her opening remarks, followed by Commissioner Mersinger. Commissioner Pham, you have the floor.

COMMISSIONER PHAM: Good morning. It's my special honor to welcome you all here for the CFTC's Global Markets Advisory Committee. I want to extend a very, very special and big thank you to our GMAC co-chairs, Amy Hong, Head of Market Structure and Strategic Partnerships at Goldman Sachs, and Darcy Bradbury, Head of Public Policy at D.E. Shaw & Co., for your work in advance of today's meeting and especially your leadership with this great group. It's been a pleasure to work with both of you. And a big thank you to Brigitte Weyls, the GMAC's Designated Federal Officer. We would not be here without the tremendous efforts that she has put in.

Over the past year and a half, you all have seen that I have been engaging with the official sector and the private sector to try to understand what are the most significant challenges facing global markets, and it's been my great pleasure to sponsor this forum to tackle each of those issues to find a practical solution to the things that we face. I think that being able to witness the tremendous dedication and passion that drives our global derivatives industry has been really moving for me, and it reminds me why I serve every day.

I'm pleased that this is now finally coming together with the recommendations that we will hear from, and so I would like to express my sincere gratitude to the 127 members of the three important GMAC Subcommittees -- Global Market Structure, Technical Issues, and Digital Asset Markets. I am very impressed by the speed and the resources that have been put in to bring these recommendations forward.

The agenda for today's meeting is packed with critical recommendations from the Global Market Structure Subcommittee and the Technical Issues Subcommittee. Our two Global Market Structure Subcommittee chairs, Brad Tully from J.P. and Michael

Winnike from BlackRock, will open the discussion today with four subcommittee recommendations for the GMAC to vote upon, which include, one, New Block and Cap Sizes; two, End User Cross-Margining Across FICC; three, Amending CFTC Rule 1.25 to Add Central Counterparties as Permitted Repo Counterparties to FCMs and DCOs; and four, a volatility controls paper endorsement of the -- an Endorsement of the FIA's Volatility Controls Paper. These four topics hold great significance for the stability and efficiency of our global derivatives markets.

Equally important, our Technical Issues Subcommittee, led by Allison Lurton from FIA and Tara Kruse from ISDA, will present the following four recommendations to the GMAC for a vote: one, Global Default Simulation; two, Money Market Funds As Eligible Collateral; three, Improvements in Trade Reporting for Market Oversight and an Increase in CFTC Reportable Data Elements; and four, Enhancing Data Sharing for Systemic Risk Analysis. All four of these recommendations reflect the dedication of the subcommittee members to ensuring a robust derivatives regulatory framework.

I wish to underscore the immense importance of the work that we are going to be doing here today, and we will also hear an update from our Digital Asset Markets Subcommittee Chairs, Caroline Butler from BNY Mellon and Sandy Kaul from Franklin Templeton, on their work. In addition, we have two presentations today. We will hear first on the Basel III Endgame Proposal and the Impact for Derivatives Markets with speakers Jackie Mesa from FIA, and guest speakers Lisa Galletta from ISDA, Toks Oyebode from J.P. Morgan, and Jeremy Wodakow from Cypress Creek Renewables.

As you all know, Basel III is a significant reform measure by the Basel Committee to strengthen the regulation, supervision, and risk management of global banks, and this set of international banking regulations has tremendous impact on the market structure for the derivatives markets, and I'm pleased that we're going to be able to examine them today.

I also appreciate that we will hear from Steve Kennedy from ISDA to discuss ISDA's recent paper, "Hidden in Plain Sight: Derivatives Exposures, Regulatory Transparency, and Trade Repositories," which addresses the concerns of certain policymakers with respect to transparency and their ability to effectively monitor risk exposures that counterparties face from the derivatives activity.

With that, I want to extend my gratitude to the CFTC staff who have made today's meeting possible, and I'm looking forward to hearing from all of the members and presenters. Thank you.

MS. HONG: Wonderful. Thank you, Commissioner Pham. Commissioner Mersinger?

COMMISSIONER MERSINGER: Thank you all for being here today, and I know we have an ambitious agenda ahead of us, so I'm going to keep my remarks very brief. I know we're starting a few minutes late here, partly because of me. I actually just rolled in from being home in South Dakota where they're in the middle of harvesting corn and sunflowers, and such an interesting kind of juxtapose being there and understanding the importance of our markets to that sector and that industry, and then coming here today and seeing another important role of our markets and just how they're used in day-to-day life. So it's kind of a neat opportunity to quickly transition between two worlds.

But I am looking forward to this agenda. There is a lot of the -- a lot of what we're covering are very important to the Commission and live issues right now, so appreciate all of your feedback. And, you know, I think we're going to learn a lot, and it's going to help us do our job better, and, again, thanks to all the GMAC members, to all the GMAC Subcommittee members. Thank you to Brigitte for her work and to all the staff who help us put this together. And with that, I'm really just here to listen and learn today, so I'm going to turn it back over to Brigitte. Thank you.

MS. WEYLS: And I'm going to turn it back over to Amy and Darcy.

MS. HONG: Great. Thank you. Well, on behalf of both Darcy and myself, thank you very much for your attendance, and we look forward to a fruitful discussion here.

Before we begin, just, you know, a few

housekeeping items. After each set of subcommittee recommendations today, there will be an open discussion for members of the committee. For GMAC members, when called upon, please identify yourself and the organization that you represent on the committee.

Now, let's begin with our first set of recommendations from the GMAC's Global Market Structure Subcommittee. We will first hear from our subcommittee co-chairs, Brad Tully of JPMorgan Chase and Michael Winnike of BlackRock, and then hear from other Global Market Structure Subcommittee members -- Wendy Yun from SIFMA AMG, Laura Klimpel from DTCC, and Jackie Mesa from FIA -- to present each recommendation. Brad and Michael.

MR. TULLY: Thank you, Amy, and good morning, and thank you, Commissioner Pham, Commissioner Mersinger, Amy, Darcy, and Brigitte, as well as my fellow GMAC members and the CFTC staff, for putting this together. On behalf of our Market Structure Subcommittee, Michael and I are excited to be here today and bringing forth four recommendations.

As a general reminder and in an effort to keep these remarks short, we've created a number of workstreams throughout our Market Structure Subcommittee, which encompasses a number of subcommittee members. Over the past several months, the team has spent an extensive amount of time with each of these workstreams, putting forth a number of these proposals. Today, we're bringing forward the four proposals that received a consensus recommendation to bring these to the floor for consideration. We look forward to a robust discussion, and I'll now turn it over to my co-chair, Michael Winnike.

MR. WINNIKE: Thank you, Brad. Well, I'd like to start by echoing your thanks to the Commission as well as to Amy and Darcy and Brigitte for organizing this important meeting today, and also to all of the members of our Market Structure Subcommittee. I'm going to briefly introduce our first topic, New Block Sizes and Cap Size Recommendations, from our subcommittee, and just go back to the meeting that we had in July, which really set the stage for this recommendation.

So as you'll recall, in the July meeting of the GMAC, we had a presentation by members of the buy side and sell side -- ISDA, both SEFs, major SEFs -- that were discussing the impact of the new block sizes on swap market structure and the potential impacts to end users that could come from much higher block sizes. Now, it may seem for those who are not as close to this issue that moving from a 50-percent notional test to a 67-percent test is a marginal increase, but when looking at the actual impact on block sizes themselves, we see that these block sizes are increasing, in many cases, 200 or, you know, even 300 percent, and this will have an impact on end users in terms of the cost to hedge and manage risk efficiently, making it more difficult for them to potentially achieve their financial goals.

So the specific points I'd like to highlight from that last meeting and were really that we looked at the change in market structure since 2013 when the block sizes were originally proposed. There are two important points. The first is that the actual market infrastructure has changed, and, in many cases, the transparency that the Commission sought to achieve to create fair and efficient markets has been achieved. We see that, in many cases, well over 90 percent of trades are already below block size and print immediately, creating public transparency. We have also seen innovations in the way swap markets operate with algorithmic pricing, which has given rise to new forms of pre-trade price transparency, where market participants can see where the market levels are for various swap products before they choose to trade.

So the question is with SEFs fully stood up and operational, what is the benefit of moving to a larger block size and forcing really large trades into competition and to print immediately? Well, we looked at that through the lens of another change in market conditions since 2013. We moved from a period of very low volatility and low inflation, a period of great moderation, to a much higher volatility environment where the same risk transfers, the same notional size swap actually represents a much larger unit of risk to move and for dealers to hedge. In these market conditions, we're concerned that the new block sizes are not appropriately calibrated and would put trades that are very large into the competition via an RFQ-to-3 mandate, which would create a potential winner's curse for the dealer that wins that trade, which they would have to protect themselves against by widening out spreads.

So in looking at that third point of market impact, we looked at studies from the CFTC's own OFR, which did a study of how trade size -- how the -- the impact of putting trades into competition in the CDX markets, and how putting too many dealers into competition can actually lead to a worse outcome for end clients as trade notional increases. And I'd like to just enter into the record today, since that meeting, the SIFMA AMG comment letter on this point -- I won't go into detail -- there is even more data from the futures market that's been brought to the attention of the Commission where we looked at large risk transfers that print immediately and how that can negatively impact price.

So on the basis of this, you know, robust discussion of data and market conditions, the Market Structure Subcommittee endeavored to put forward a recommendation on how we can move forward from here. So I'll turn it over to Wendy. Thank you.

MS. YUN: Thank you, Michael. I'd like to thank Commissioner Pham as sponsor of the GMAC, and of our Global Market Structure Subcommittee, Commissioner Mersinger, Amy and Darcy, CFTC staff, and other members of the GMAC for your time and consideration of our recommendations regarding the block and cap sizes.

As many of you know, block and cap sizes play a vital role under the CFTC rules in delicately balancing the need for market transparency for price discovery versus liquidity. For swaps meeting the block thresholds, under the CFTC rules regarding Part 43 real-time reporting, public dissemination of the swap transaction and pricing data is delayed, thus giving critical but limited time for the winning dealer to hedge its exposures. Additionally, swaps subject to the CFTC's mandatory trade execution requirements via SEFs are afforded, by the CFTC, an exception for block trades to be done on an RFQ-to-1 basis rather than the traditional mandatory RFQ-to-3 order book methods. This, again, is in order for -- to prevent for -- information leakage as well as to provide the critical time for the winning dealer to be able to offset and hedge its exposures.

Additionally, the cap size limits allow the SDRs to publicly report large notional trades based on the cap thresholds rather than the full notional amounts. This, too, is to prevent information leakage and winner's curse issues and possible reverse engineering of the identity of the parties to those transactions.

While we appreciate the recent relief that was provided by the CFTC under No-Action Letter 2315 for SDRs to address certain operational and technological challenges to take -- before the new limits take effect, we remain very concerned that the heightened thresholds in certain asset classes have not been properly calibrated and will likely result in reduced liquidity, increased risk of information leakage, wider bid offers, and increased transaction and hedging costs.

Given these significant concerns, the GMAC

Subcommittee recommends that the CFTC extend the compliance date for the increased post-initial blocks -- block and -- block and cap sizes for all asset classes until at least December 4th, 2024, and during this extension period, that the Commission engage in discussions with the industry to analyze and ensure that the increased block sizes and cap sizes are appropriately tailored. We believe that this is consistent with the sentiments expressed by Commissioner Pham and Mersinger -- I'm sorry -- Commissioner Pham and Mersinger in their recent joint statement with respect to No-Action Letter 2315 regarding the need for more time to undertake data-driven analysis, including more recent data reported under the amended CFTC reporting rules that took effect last December.

While the industry doesn't have the full transparency into or the ability to replicate the data sets that were used by the CFTC in setting these new post-initial block size -- block and cap sizes, in many cases, we observed drastic increases, some around 10 times higher than current thresholds, and, for example, for gold, almost 500 times. These anomalies raise serious concerns and questions around the scope and quality of the data that was used by the CFTC in properly accounting for certain types of transactions, in particular for trades that should've been excluded for purposes of the cap size and block size determinations. For example, we question whether or not the CFTC excluded notional amounts for rule dates across all products beyond non-optioned index CDS, such as for FX trades. Second, has the CFTC -- how has the CFTC treated forward-starting swaps, amendments, novations of existing trades, offsets, and error correction exercises?

As described in more detail in our recommendations, in many instances, different types of transactions are executed through the same venues without any indication if they are outright trades or riskless principle -- riskless trades, collapses, rolls, or curve trades. We question whether or not the CFTC was able to determine which transactions to include in their data sets without any kind of distinguishing feature or indication on those transactions.

The CFTC agreed in amendments to Part 43 that certain multiple -- multi-party swap portfolio risk reduction exercises can serve the same purpose as portfolio compression exercises and, therefore, should not fall within the definition of a "publicly-reported transaction" or be subject to the real-time reporting. However, once again, how were these trades identified and properly excluded from the block and cap size determinations? It is important that a more fulsome and balanced analysis of the relevant trade data be conducted to ensure that the increased block and cap sizes were properly calibrated and strike the appropriate balance between transparency and liquidity before the new thresholds go into effect.

We also believe that the CFTC should take into account other distinguishing objective market criteria or factors in determining whether or not there might be needs for relief in certain instances during -- especially during times of market volatility. We've seen in March of 2020 where there was a reduced level of liquidity, which then caused it to be challenging for some market participants, especially end users, to be able to achieve even an RFQ-to-3 in some of the most plain vanilla products, thus making it even more difficult to even achieve block -- meeting block size thresholds to be able to properly, you know -- you know, mask the size and -- the size of those transactions and allow the dealers the ample time to be able to offset their hedges.

With that, I'll stop for any questions.

(No response.)

MS. HONG: I would suggest, Brad and Michael, if there aren't any questions now, let's go ahead and move on to the next recommendation, and then we'll have time for discussion at the end.

MR. TULLY: Okay.

MALE SPEAKER: I believe there's a question.

MS. HONG: Yes? Chris Childs from DTCC.

MR. CHILDS: Can you hear me? Yeah. No questions. Just a couple of comments actually. One is, my understanding is that the Market Risk Advisory Committee is also looking at the block and cap rules. I think that there's a lot of similarities between the opinions, but it would be good to make sure that the opinions of all advisory committees of the CFTC are aligned. The second is, when thinking about timelines, don't forget the implementation timelines for the SDRs to adequately test or code and test for implementation. Thank you.

MS. HONG: Thank you, Chris. Brad and Michael?

MR. TULLY: Thanks. We'll now -- I'll now turn it over to Laura to present end user cross-margining.

MS. KLIMPEL: Thanks, Brad. First, I'd like to thank Commissioner Pham, Commissioner Mersinger, and the Global Markets Advisory Committee for the opportunity to present two term sheets developed by the Treasury Market Structure Reform Workstream of the Global Market Structure Subcommittee of the GMAC.

The first term sheet, entitled, "FICC CME Customer Position Cross-Margining Structure," sets out a high-level overview of the Workstream's preferred structure for expanding the current FICC CME cross-margining arrangement to cover customer positions. I'd like to note at the outset that this proposed structure may need to be adjusted to account for any final rule by the SEC requiring clearing of Treasury transactions and any related FICC rules implementing such clearing requirement. In developing this proposed structure for customer cross-margining, the Workstream considered a variety of precedent cross-margining arrangements, including, but not limited to, the existing FICC CME cross-margining arrangement, which has been in existence since 2004 and is currently limited to the house or proprietary positions of common members of the clearinghouses or affiliated payers.

I would note that the Commission and the SEC have recently approved a series of enhancements to that arrangement that we and CME are very excited to be rolling out to the market in January. However, we view it as critical to efficient market structure, particularly in light -- particularly in light of the potential for increased clearing in the Treasury cash and repo markets to bring cross-margining efficiencies down to the end user customer level according to the following objectives:

Number one, make the benefits of cross-margining available to as broad a range of sophisticated customers as possible, including all those that may be covered by a clearing requirement in the Treasury cash and repo markets, as well as those that voluntarily clear their Treasury cash and repo activity and post-margin in respect of such activity. Number two, allow such customers the benefit of the established and trusted customer protection regime of the Commodity Exchange Act Section 4d.

Number 3, minimize, wherever possible, credit exposure to FICC, CME, and their respective members and customers generally. Some of the key features of the proposed cross-margining structure for customer positions include, number one, margin requirements being calculated at the clearinghouse level by FICC and CME in a manner that recognizes the risk offsets of the cross-margin portfolio of the customer. Number two, the scope of eligible products, the cross-guarantee, default management, and the methodology for determining the amount of margin reduction would be the same as in the enhanced cross-margining arrangement that I just referred to, recently approved by the Commission and the SEC. Number three, participation in the cross-margining arrangement would, of course, be voluntary on the part of customers and their clearing intermediaries.

Number four, the arrangement would also be predicated on FICC revising its rules to create a mechanism to hold and record the positions and margin posted by customers participating in cross-margining in a segregated fashion, and such margin would not be subject to loss mutualization. And number five, I want to note that we also plan to commission outside counsel opinions confirming that cross-margin positions will receive the same protections as currently apply to futures positions in the FCM's failure, and that the margin posted to CME and FICC would be bankruptcy remote.

In terms of the proposed customer protection model, we would propose that cross-margining customers' positions and margin be held in a futures account at their clearing member, i.e., a 4d account, and that in the event of a clearing member's insolvency, customers would enjoy the same protections under Part 190 that apply to futures accounts and margin. And we believe that the recent amendments to Part 190 make clear that where FICC positions are crossed-margined in the futures account, cross-margining customers will be treated as futures customers. Customers would not be required under our proposal to subordinate their claims to those of other futures customers that are not cross-margining, but they would be required to opt out of SIPA protection. And that's consistent with prior cross -- customer cross-margining arrangements in other -- in other situations.

In terms of porting, as we note in our term sheet, FICC intends to discuss supporting porting with its supervisors, particularly in the context of cross-margining customers. And I would also note that we do not anticipate the use of cross-margining as negatively impacting porting as Part 190 clearly allows for partial porting whereby cross-margin customers' positions could be ported to an FCM that is also a clearing intermediary at FICC, whereas non-cross-margin futures customers could potentially be ported to a different FCM. Furthermore, recent amendments to part -- the Part 190 rules prohibit making a transfer that would increase a customer's net equity claim in an FCM's insolvency, such that the FCM's bankruptcy trustee could not separate a cross-margin customer's futures and securities positions in a way that would expose it to greater risk from the FCM's failure.

In conclusion, the expansion of cross-margining to end user customers will require approvals by both the Commission and the SEC, and should the GMAC approve the proposed structure today, we intend on kicking off regulatory engagement to advance this proposal as soon as possible. And I'll conclude my remarks there for the cross-margining term sheet.

MR. TULLY: Great. Thank you, Laura. Do you want to take the next proposal as well?

MS. KLIMPEL: Sure. The second term sheet that I'm presenting today on behalf of the Treasury Market Structure Workstream would recommend authorizing a central counterparty that meets the definition of a "covered clearing agency" under SEC rules to be a permitted repo counterparty pursuant to CFTC Rule 1.25(d)(2). CFTC Rule 1.25(d) permits FCMs and DCOs to invest customer funds by buying and selling permitted investments pursuant to a repo opposite what is considered to be a permitted counterparty. Currently, a clearing agency is not a permitted counterparty for this purpose. Such entities are limited to the following: banks, foreign bank domestic branches, securities brokers and dealers, and government securities brokers and dealers.

As a result of the exclusion of clearing agencies from the list of permitted repo counterparties, FCMs and DCOs can invest customer funds in a repo with a bank or a broker-dealer on a bilateral basis, but they cannot participate in the cleared markets for those investments, not even through one of FICC's client clearing models. And I would note that permitting a clearing agency to face an FCM or DCO on a repo investment of customer margin would not require the FCM or DCO to participate in clearing, but, rather, would just make it a permitted option for FCMs and DCOs. In addition, because FICC does not require clearing members customers to post margin, this proposal would in no way necessitate that an FCM or a DCO's customer margin be contributed to the FICC clearing fund.

Permitting FCMs and DCOs access to the cleared markets for repo investments would provide them with access to a larger liquidity pool during a stress situation and decrease settlement and operational risk by making a greater number of transactions eligible to be netted and subject to guaranteed settlement, novation, and independent risk management through a central counterparty. In addition, cleared transactions in the repo market receive greater protection against fire sale risk because of a central counterparty's ability to centralize and control the liquidation of a greater portion of a failed counterparty's portfolio. Thank you. I'm going to end my remarks there for the second term sheet.

MR. TULLY: Thank you, Laura, for those two recommendations, and now to conclude with our fourth recommendation, I'll turn it over to Jackie.

MS. MESA: Thank you, and thanks to Commissioner

Pham, and Commissioner Mersinger, and the committee chairs. Today, we're going to -- I'm going to just briefly outline FIA's published Best Practices for Exchange Volatility Controls, and I'm going to outline what we're asking GMAC to endorse today.

So what we're asking today is that the GMAC recommend that the Commission use the best practices as a tool for understanding exchange market risk controls and when engaging with global regulators and international standard setters. FIA, in consultation with leading global exchanges, many of whom are around this table, developed and published in September, practices regarding exchange volatility control mechanisms. Recent events, such as the global pandemic, invasion of Ukraine, and government policy decisions, all have one thing in common: they can cause extreme and sudden market volatility.

Events of extreme volatility can -- don't always -- undermine the integrity and reliability of the markets and, therefore, undermine investor confidence. VCMs are designed to mitigate that impact of extreme volatility and to avoid market disruptions without unduly interfering with the market's price discovery function, and to preserve the efficient and orderly functioning financial markets. This paper sets forth best practices for VCMs and also recommended remedial measures for handling erroneous trades.

Rather than getting into each detail of the best practices, which are fairly high level but vary depending on the controls, I thought I would just outline the controls that are in the paper. There are three major controls used as volatility control mechanisms, and they're not appropriate for all products or all markets but are up to the exchanges to apply the appropriate controls for each of these products and markets.

The first is a price ban on orders, which usually prevents erroneous orders from entering the market and resulting in trades at aberrant prices. They also limit bids at prices well above the market or limit offers at prices well below the market. The second is daily price limits, which represent the maximum price range permitted for each contract during a proscribed time interval. Some may have hard limits while others may have temporary halts to interrupt trading until a limit can be expanded.

And finally, mechanisms to interrupt continuous trading. These are market pauses to prevent market prices from moving too far too fast, and they also place limits on the amount a market can move within a preset time period. They're usually one control and perhaps used in combination with other controls. Best practices can vary slightly across the exchanges, and it's up to the exchanges to really monitor whether those market volatility controls need to be adjusted given the time period they're experiencing. Thank you.

MR. TULLY: Thank you. That now concludes our four recommendations. I'll turn it over to Amy if you want to open it up for questions or comments.

MS. HONG: Great. Many thanks to the Global Market Structure Subcommittee for these thoughtful recommendations. I'd like to open it up to GMAC members for any questions and an open discussion. We're going to go recommendation by recommendation in sequence, and then once we've concluded the open discussion, we'll move on to make a motion to make these recommendations to the Commission and proceed with the vote.

First, are there any further comments or discussion points related to New Block and Cap Sizes Recommendation?

MR. TULLY: Amy, we'd like to make one. So behalf -- on behalf of JPMorgan Chase -- Brad Tully -- thank you, Michael and Wendy, for the presentation on the new block and cap sizes.

I'd like to start by noting that we welcome the recent steps by the CFTC staff to extend the compliance date for the block and cap sizes through mid-2024. We also strongly support this recommendation from the Market Structure Subcommittee to further extend the compliance date for the post-initial block and cap sizes, and to ensure there's engagement between the Commission and the industry for appropriate tailoring of the sizes prior to implementation. An appropriately-calibrated block and cap size regime is critical to ensure that end user investors and producers can trade in large sizes, and dealers are able to risk manage their market-making activity when providing liquidity to clients and end users. This is particularly important for hedging and risk mitigation in the current environment, economic and market, given the broader economic backdrop.

In our internal analysis of the revised block and cap sizes, we observed some thresholds which seemed excessively high, but since we, like every other market participant, are limited by our own data, we are not in a position to replicate the full analysis undertaken by the Commission. We believe in informed discussion and analysis based on the data from the CFTC's swap data repositories is the most effective way to appropriately -- to arrive at appropriately-calibrated block and cap sizes that serve the purposes of providing transparency while preserving liquidity. Such analysis requires time, so the -- so an extension of the compliance date until at least 2024 is needed, and J.P. Morgan stands ready to engage with the Commission in such discussion and analysis. Thank you.

MS. HONG: Brad, thank you for your comments.

Are there any other remarks related to the New Block and Cap Sizes Recommendation?

(No response.)

MS. HONG: Okay. Well, we'll proceed to the second recommendation, the End User Cross-Margining Across FICC and CME Recommendation. Are there any remarks or questions? Yes, Dave Olsen.

MR. OLSEN: Thank you, Amy. I'm Dave Olsen. I'm the president of Jump Trading Group, and I represent the FIA Principal Traders Group at the GMAC. Thank you, Laura, for the proposal. The PTG is strongly in favor of moving forward with extending the cross-margining capability to end users.

What I'd like to point out, though, is, especially in this area, we've seen economies of scale create natural monopolies in market structure in this space, and that to the extent that such a powerful capital savings is provided to two of the key participants in the market, we would urge the DTCC and the Commission to consider what open access would be available should there be other innovators or other providers that would want to participate in such a cross-margining solution. We'd love to see that be part of any final form of the recommendation. Thank you.

MS. HONG: Dave, thank you. Are there any other questions or comments in the room? I believe we have remarks from Chris Perkins, who's dialed in virtually. Chris?

MR. PERKINS: Thank you, Amy, and thank you, everyone, for your thoughtful presentations. The question -- I have a similar question to David Olsen around ensuring that we maintain the ability -- one thing that we've noticed is that there's been a precipitous drop in FCMs, and my concern is that unfolding additional capital efficiencies here, I'm not sure how -- what the -- how that would impact the FCM population. And we really want to question will this help us reverse the trend of the precipitous drop in FCMs, or would it actually exacerbate it?

And, you know, we're obviously fans of capital efficiency. Also want to make sure that, you know, the risk management based on some of the settlement latency we're seeing with FCMs is addressed in this proposal. And then finally, we'd love to look forward to a world where perhaps some of this cross-margining could take place at the CCP itself, to the extent that, you know, we continue to -- we continue to see this precipitous drop in FCMs.

MS. HONG: Chris, thank you for your remarks. Are there any other remarks or questions before we proceed to the third recommendation?

(No response.)

MS. HONG: And now we will take questions and remarks related to the proposal by FICC to Add CCPs as Permitted Repo Counterparties to FCMs and DCOs Under CFTC Regulation 1.25.

(No response.)

MS. HONG: Okay. If there are not any questions or comments related to that recommendation, we'll move on to the fourth and final recommendation from the Global Market Structure Subcommittee: Volatility Endorsement of FIA Paper and Executive Summary. Are there any questions or comments in the room?

(No response.)

MS. HONG: None virtually?

(No response.)

MS. HONG: Okay. Okay. Well, I'd like to welcome any questions or discussion from GMAC members on any of the recommendations or related topics before we proceed to voting. Yes, Darcy.

MS. BRADBURY: Well, first I want to thank this subcommittee. This is a huge amount of work obviously, and it was interesting to me reading them for the first time, some of them are very specific, like the cap, you know, move it to December 24th. The cross-margining one is -- you know, notes that it's a high-level approach, and I think the two comments reflect that it's going to need to be adjusted and to take into account the various regulatory initiatives that are underway. And so that gave me some comfort as a non-cross-margining clearing expert to be able to support the proposal, that it is a high-level sort of principles-based direction, even though it has a lot of detail for illustrative purposes within the proposal.

So I want to thank everyone for all of those, and that sort of reflects through the four recommendations. There are some times when it's easier to be incredibly specific and other times where we're really laying out principles, like the volatility controls, which will be very helpful. And when you see governments doing things sometimes without those frameworks, like we've seen actually this morning in another jurisdiction, it's very helpful to have that. So thank you for all of that.

MS. HONG: Darcy, thank you for your comments. Are there any other remarks?

(No response.)

MS. HONG: Okay. With that -- sorry. Wendy Yun.

MS. YUN: Hi, Amy. Thank you for your time. Just a general statement on behalf of SIFMA AMG, as a subcommittee member. I think as you're looking at these different recommendations and we're talking about key themes related to liquidity, and potential concentrations of risks, or other concerns about diminished services by clearing members and others, we have to take into account that there are other extenuating factors and circumstances beyond just those that we highlighted today, such as I think you'll hear later on about the impact on Basel III Endgame and other rules that might then affect liquidity. And so we have to take into account, I think, the whole picture as to how those will interface or intersect with, you know, the concerns that we're raising today about liquidity.

MS. HONG: Wendy, thank you. That's, I think, a very important point to make is the interrelated nature of various regulations and pending regulations. Now we will move on to a motion for the committee to adopt the subcommittee recommendations and to submit them to the Commission for consideration. Is there a motion?

MR. OLSEN: So moved.

MS. HONG: Thank you, and is there a second?

SUBCOMMITTEE MEMBER: Second.

MS. HONG: Thanks. It has been moved and seconded. Are there any additional questions or comments?

(No response.)

MS. HONG: The motion on the floor is for the GMAC to adopt the four subcommittee recommendations --

New Block and Cap Sizes Recommendation, the End User Cross-Margining Across FICC and CME Recommendation, Proposal by FICC to Add CCPs as Permitted Repo Counterparties to FCMs and DCOs Under CFTC Regulation 1.25, Volatility Endorsement of FIA Paper and Executive Summary -- and to submit all four recommendations to the Commission for consideration.

As a point of order, a simple majority vote is necessary for the motion to pass. I will turn it over to Brigitte to conduct a roll call vote.

MS. WEYLS: Thank you, Amy. Just for the record, at the beginning of the meeting, I gave the court reporter Exhibit 1, which lists all attendees at meeting, and we have 37 of 38 virtually and in-person. If it's all right with you, Amy, do you want me to go through each recommendation separately, or would you like each member to vote on all four at once?

MS. HONG: Let's go through them separately, please.

MS. WEYLS: Okay. We'll start with the block and cap sizes. Members, when I call your name, please remember to unmute your mic, especially for those on

Zoom.

Chris Allen?

MR. ALLEN: Yeah.

MS. WEYLS: Yes, no, or abstain?

MR. ALLEN: Vote yes.

MS. WEYLS: Bill Bolton is not in attendance.

Perianne Boring?

MS. BORING: Yes.

MS. WEYLS: Darcy Bradbury?

MS. BRADBURY: Yes.

MS. WEYLS: Isaac Chang?

MR. CHANG: Abstain.

MS. WEYLS: Nadine Chakar?

MS. CHAKAR: Yes.

MS. WEYLS: Chris Childs?

MR. CHILDS: Yes.

MS. WEYLS: Jason Chlipala?

MR. CHLIPALA: Yes.

MS. WEYLS: Gerry Corcoran?

MR. CORCORAN: Yes.

MS. WEYLS: Adam Farkas?

MR. FARKAS: Yes.

MS. WEYLS: Scott Fitzpatrick?
MR. FITZPATRICK: Yes.
MS. WEYLS: Amy Hong?
MS. HONG: Yes.
MS. WEYLS: John Horkan?
(No response.)
MS. WEYLS: John is on Zoom.
MR. HORKAN: Yes.
MS. WEYLS: Thank you.
MR. HORKAN: Yes. Sorry.
MS. WEYLS: No problem.
Angie Karna?
MS. KARNA: Yes.
MS. WEYLS: Kevin Kennedy?
MR. KEVIN KENNEDY: Yes.
MS. WEYLS: Steven Kennedy?
MR. STEVE KENNEDY: Yes.
MS. WEYLS: Agnes Koh?
MS. KOH: Abstain. Sorry.
MS. WEYLS: Abstain? Thank you.
Mary-Catherine Lader?
MS. LADER: Yes.

MS. WEYLS: Ben Macdonald?

MR. MACDONALD: Abstain.

MS. WEYLS: Jackie Mesa?

MS. MESA: Yes.

MS. WEYLS: Okay. Erik Tim Muller?

MR. MULLER: Yes.

MS. WEYLS: John Murphy?

MR. MURPHY: Yes.

MS. WEYLS: Is that a yes?

MR. MURPHY: Yes.

MS. WEYLS: Thank you.

Joseph Nicosia?

(No response.)

MS. WEYLS: Joseph is on Zoom. If you are able to message me your vote if you're having audio problems. Otherwise, we will move along.

Dave Olsen?

MR. OLSEN: Abstain.

MS. WEYLS: Sorry. Tetsuo Otashiro?

MR. OTASHIRO: Yes.

MR. NICOSIA: This is Joe Nicosia. I think they just unmuted me. I'm yes.

MS. WEYLS: Yes? Thank you.

Christopher Perkins?

MR. PERKINS: Yes.

MS. WEYLS: Thomas Pluta?

MR. PLUTA: Yes.

MS. WEYLS: Sachiyo Sakemi?

MS. SAKEMI: Yes.

MS. WEYLS: Tom Sexton?

MR. SEXTON: Yes.

MS. WEYLS: Andrew Smith?

MR. SMITH: Abstain.

MS. WEYLS: Jason Swankoski?

MR. SWANKOSKI: Yes.

MS. WEYLS: Brad Tully?

MR. TULLY: Yes.

MS. WEYLS: Thane Twiggs?

(No response.)

MS. WEYLS: I know Thane is online on the Zoom, so if you are -- if you're having audio problems, if you want to message me your vote.

(No response.)

MS. WEYLS: Thane?

(No response.)

MS. WEYLS: Okay. We'll move along.

Jason Vitale?

MR. VITALE: Yes.

MS. WEYLS: Stuart Williams?

MR. WILLIAMS: Yes.

MS. WEYLS: Julie Winkler?

MS. WINKLER: Yes.

MS. WEYLS: Okay. And Vadim Zlotnikov is having audio problems.

MR. ZLOTNIKOV: Nope, nope, I'm not. Yes.

MS. WEYLS: Okay. Perfect. And then finally, Chris Zuehlke?

MR. ZUEHLKE: Abstain.

MS. WEYLS: Okay. The yeses have it. Darcy, we had, I believe, six abstains, five abstains?

FEMALE SPEAKER: Six.

MS. WEYLS: Six abstains, and the remainder were all yeses, so the Recommendation on Block and Cap Sizes will be moved along to the Commission for consideration. And the next vote that we will be conducting is the Recommendation on the FICC CME

Cross-Margining. Members, when I call your name, please indicate your vote with a yes, no, or abstain.

Chris Allen?

MR. ALLEN: Yes.

MS. WEYLS: Bill Bolton is not in attendance.

Perianne Boring?

MS. BORING: Abstain.

MS. WEYLS: Darcy Bradbury?

MS. BRADBURY: Yes.

MS. WEYLS: Isaac Chang?

MR. CHANG: Yes.

MS. WEYLS: Nadine Chakar?

MS. CHAKAR: Yes.

MS. WEYLS: Chris Childs?

MR. CHILDS: Yes.

MS. WEYLS: Jason Chlipala?

MR. CHLIPALA: Yes.

MS. WEYLS: Gerry Corcoran?

MR. CORCORAN: Yes.

MS. WEYLS: Adam Farkas?

MR. FARKAS: Yes.

MS. WEYLS: Scott Fitzpatrick?

MR. FITZPATRICK: Abstain.
MS. WEYLS: Amy Hong?
MS. HONG: Yes.
MS. WEYLS: John Horkan?
(No response.)
MS. WEYLS: John Horkan?
(No response.)
MS. WEYLS: I will circle back.
MR. HORKAN: Abstain.
MS. WEYLS: Abstain? Thank you.
MR. HORKAN: Abstain.
MS. WEYLS: Gotcha. Angie Karna?
MS. KARNA: Yes.
MS. WEYLS: Kevin Kennedy?
MR. KEVIN KENNEDY: Yes.
MS. WEYLS: Steven Kennedy?
MR. STEVE KENNEDY: Yes.
MS. WEYLS: Agnes Koh?
MS. KOH: Yes.
MS. WEYLS: Mary-Catherine Lader?
MS. LADER: Abstain.
MS. WEYLS: Ben Macdonald?

MR. MACDONALD: Yes.
MS. WEYLS: Jackie Mesa?
MS. MESA: Yes.
MS. WEYLS: Erik Tim Muller?
MR. MULLER: Yes.
MS. WEYLS: John Murphy?
MR. MURPHY: Yes.
MS. WEYLS: Joseph Nicosia?
MR. NICOSIA: Yes.
MS. WEYLS: Dave Olsen?
MR. OLSEN: Yes. Yes.
MS. WEYLS: Tetsuo Otashiro?
MR. OTASHIRO: Yes.
MS. WEYLS: Christopher Perkins?
MR. PERKINS: Abstain.
MS. WEYLS: Thomas Pluta?
MR. PLUTA: Abstain.
MS. WEYLS: Sachiyo Sakemi?
MS. SAKEMI: Yes.
MS. WEYLS: Tom Sexton?
MR. SEXTON: Yes.
MS. WEYLS: Andrew Smith?

MR. SMITH: Yes.

MS. WEYLS: Jason Swankoski?

MR. SWANKOSKI: Yes.

MS. WEYLS: Brad Tully?

MR. TULLY: Yes.

MS. WEYLS: Thane Twiggs?

(No response.)

MS. WEYLS: Thane Twiggs?

(No response.)

MS. WEYLS: Okay. All right. Jason Vitale?

MR. VITALE: Yes.

MS. WEYLS: Stuart Williams?

MR. WILLIAMS: Yes.

MS. WEYLS: Julie Winkler?

MS. WINKLER: Yes.

MS. WEYLS: Okay. Vadim Zlotnikov, are you still online?

MR. ZLOTNIKOV: Yes.

MS. WEYLS: Yes. Is that a yes?

MR. ZLOTNIKOV: Yes.

MS. WEYLS: Thank you, and then Chris Zuehlke?

MR. ZUEHLKE: Yes.

MS. WEYLS: Okay. The yeses have it again. We have six abstains, and the remainder were yeses, so the Recommendation on the FICC/CME Cross-Margining will be advanced to the Commission.

We will now move to the third Global Market Structure Subcommittee recommendation, and that was regarding 1.25. Let me just read the title. That was the Proposal to Add CCPs as Permitted Repo Counterparties to FCMs and DCOs Under CFTC Rule 1.25.

Chris Allen?

MR. ALLEN: Yes.

MS. WEYLS: Bill Bolton is not in attendance.

Perianne Boring?

MS. BORING: Abstain.

MS. WEYLS: Darcy Bradbury?

MS. BRADBURY: Yes.

MS. WEYLS: Isaac Chang?

MR. CHANG: Yes.

MS. WEYLS: Nadine Chakar?

MS. CHAKAR: Yes.

MS. WEYLS: Chris Childs?

MR. CHILDS: Yes.

MS. WEYLS: Jason Chlipala?
MR. CHLIPALA: Yes.
MS. WEYLS: Gerry Corcoran?
MR. CORCORAN: Yes.
MS. WEYLS: Adam Farkas?
MR. FARKAS: Yes.
MS. WEYLS: Scott Fitzpatrick?
MR. FITZPATRICK: Abstain.
MS. WEYLS: Amy Hong?
MS. HONG: Yes.
MS. WEYLS: John Horkan?
MR. HORKAN: Yes.
MS. WEYLS: Angie Karna?
MS. KARNA: Yes.
MS. WEYLS: Kevin Kennedy?
MR. KEVIN KENNEDY: Yes.
MS. WEYLS: Steven Kennedy?
MR. STEVE KENNEDY: Yes.
MS. WEYLS: Agnes Koh?
MS. KOH: Yes.
MS. WEYLS: Mary-Catherine Lader?
MS. LADER: Yes.

MS. WEYLS: Ben Macdonald?
MR. MACDONALD: Yes.
MS. WEYLS: Jackie Mesa?
MS. MESA: Yes.
MS. WEYLS: Erik Tim Muller?
MR. MULLER: Yes.
MS. WEYLS: John Murphy?
MR. MURPHY: Yes.
MS. WEYLS: Joseph Nicosia?
MR. NICOSIA: Yes.
MS. WEYLS: Dave Olsen?
MR. OLSEN: Yes.
MS. WEYLS: Tetsuo Otashiro?
MR. OTASHIRO: Yes.
MS. WEYLS: Christopher Perkins?
MR. PERKINS: Yes.
MS. WEYLS: Thomas Pluta?
MR. PLUTA: Yes.
MS. WEYLS: Sachiyo Sakemi?
MS. SAKEMI: Yes.
MS. WEYLS: Tom Sexton?
MR. SEXTON: Yes.

MS. WEYLS: Andrew Smith?
MR. SMITH: Yes.
MS. WEYLS: Jason Swankoski?
MR. SWANKOSKI: Yes.
MR. TULLY: Yes.
MS. WEYLS: Brad Tully? Sorry. My audio went out.
MR. TULLY: Yes.
MS. WEYLS: Thane Twiggs?
(No response.)
MS. WEYLS: Not going to get a vote there.
Jason Vitale?
MR. VITALE: Yes.
MS. WEYLS: Stuart Williams?
MR. WILLIAMS: Yes.
MS. WEYLS: Julie Winkler?
MS. WINKLER: Yes.
MS. WEYLS: Vadim Zlotnikov?
MR. ZLOTNIKOV: Yes.
MS. WEYLS: Okay. And Chris Zuehlke?
MR. ZUEHLKE: Yes.
MS. WEYLS: Okay. The yeses have it again. How

many abstain -- how many abstains did we have?

MS. BRADBURY: We got one.

MS. WEYLS: One abstain. Okay. Okay. And now we're going to move onto the fourth and final vote, which is the Endorsement of the FIA Volatility Paper, so I'll start votes on that.

Chris Allen?

MR. ALLEN: Yes.

MS. WEYLS: Perianne Boring?

MS. BORING: Abstain.

MS. WEYLS: Darcy Bradbury?

MS. BRADBURY: Yes.

MS. WEYLS: Isaac Chang?

MR. CHANG: Yes.

MS. WEYLS: Nadine Chakar?

MS. CHAKAR: Yes.

MS. WEYLS: Chris Childs?

MR. CHILDS: Yes.

MS. WEYLS: Jason Chlipala?

MR. CHLIPALA: Yes.

MS. WEYLS: Gerry Corcoran?

MR. CORCORAN: Yes.

MS. WEYLS: Adam Farkas?
MR. FARKAS: Yes.
MS. WEYLS: Scott Fitzpatrick?
MR. FITZPATRICK: Yes.
MS. WEYLS: Amy Hong?
MS. HONG: Yes.
MS. WEYLS: John Horkan?
MR. HORKAN: Yes.
MS. WEYLS: Angie Karna?
MS. KARNA: Yes.
MS. WEYLS: Kevin Kennedy?
MR. KEVIN KENNEDY: Yes.
MS. WEYLS: Steven Kennedy?
MR. STEVE KENNEDY: Yes.
MS. WEYLS: Agnes Koh?
MS. KOH: Yes.
MS. WEYLS: Mary-Catherine Lader?
MS. LADER: Yes.
MS. WEYLS: Ben Macdonald?
MR. MACDONALD: Yes.
MS. WEYLS: Jackie Mesa?
MS. MESA: Yes.

MS. WEYLS: Erik Tim Muller?

MR. MULLER: Yes.

MS. WEYLS: John Murphy?

MR. MURPHY: Yes.

MS. WEYLS: Joseph Nicosia?

MR. NICOSIA: Yes.

MS. WEYLS: Dave Olsen?

MR. OLSEN: Yes.

MS. WEYLS: Tetsuo Otashiro?

MR. OTASHIRO: Yes.

MS. WEYLS: Christopher Perkins?

MR. PERKINS: Abstain.

MS. WEYLS: Thomas Pluta?

MR. PLUTA: Yes.

MS. WEYLS: Sachiyo Sakemi?

MS. SAKEMI: Yes.

MS. WEYLS: Tom Sexton?

MR. SEXTON: Yes.

MS. WEYLS: Andrew Smith?

MR. SMITH: Yes.

MS. WEYLS: Jason Swankoski?

MR. SWANKOSKI: Yes.

MS. WEYLS: Brad Tully?

MR. TULLY: Yes.

MS. WEYLS: Thane Twiggs?

MR. TWIGGS: Yes.

MS. WEYLS: All right. Jason Vitale?

MR. VITALE: Yes.

MS. WEYLS: Stuart Williams?

MR. WILLIAMS: Yes.

MS. WEYLS: Julie Winkler?

MS. WINKLER: Yes.

MS. WEYLS: And Vadim Zlotnikov?

MR. ZLOTNIKOV: Abstain.

MS. WEYLS: Finally, Chris Zuehlke?

MR. ZUEHLKE: Yes.

MS. WEYLS: Okay. The yeses have it. I think we have one, two, three abstains. Thank you all. This concludes our voting for the Global Market Structure Subcommittee four recommendations. I'll pass it along to Amy.

MS. HONG: Thank you, Brigitte, and thanks again to the Global Market Structure Subcommittee and GMAC members.

We will now move on to our one and only panel for today, which is on the Basel III Endgame Proposal: Impact to Derivative Markets, and we will hear from our speakers: Lisa Galletta, Head of U.S. Prudential Risk at ISDA; Jackie Mesa, Chief Operating Officer and Senior Vice President of Global Policy at the FIA; Toks Oyebode, Managing Director of Regulatory Affairs at J.P. Morgan; and Jeremy Wodakow, Chief Revenue Officer of Cypress Creek Renewables. Lisa, the floor is yours.

MS. GALLETTA: Thank you, Amy. Hi, everyone. I appreciate the opportunity to be here today to speak about Basel III capital. As Amy mentioned, I'm Lisa Galletta, Head of U.S. Prudential Risk at ISDA. I will start the presentation by giving a brief summary of the history of the Basel III rules and speak about why Basel III Endgame, this proposal is so impactful to the derivatives markets.

So banks are required to hold capital for market risk, credit, and operational risks of their -- for their operating businesses. Regulatory capital requirements are initially agreed upon by the Basel

Committee on Banking Supervision, or BCBS. BCBS was first established in 1974 and made up of international banking regulators, and serves as a forum for regulatory cooperation between banking regulators across the world. It operates as a global standard-setting body where regulators agree upon minimum standards to apply. The U.S. prudential regulators -- so the Fed, FDIC, and OCC -- are all a part of this Basel Committee. They also represent the committee that jointly set minimum regulatory capital requirements for banks operating in the U.S.

BCBS introduced significant revisions to the Basel framework following the 2008 global financial crisis. The U.S. prudential regulators proposed this year a new capital framework to bring the U.S. capital rules in line with the framework agreed upon by the Basel Committee. These rules are referred to as Basel III Endgame.

So I'll go to the next slide, please.

So on this slide, what I really wanted to show is basically the timeline for Basel III rules. As you can see, after the global financial crisis, if you look at the Basel block, so BCBS, Basel III rules were finalized in 2010. Following those initial Basel III rules, the Basel Committee then continued to work on updating the rules, so there were finalized rules published in 2017, but that is excluding FRTB. So FRTB was initially published in 2016 and then updated in 2019, so the 2017 rules, which are not market risk, plus the 2019 market risk rules together form the Basel III Endgame set of rules. And these rules were meant to go live across the jurisdictions by January 2022. During COVID, that was delayed by a year, so the new go-live was January 2023.

If you look at the block that shows the timeline for the U.S., the U.S. published their first set of rules in 2013 and since then, has not published any updates to the -- to the Basel III rules. Basel III rules, the Endgame proposal, came out in July of this year. They initially gave a comment period deadline for November 30th. A few weeks ago, they asked banks to submit data, and they've updated that timeline for comment to be January 16th, 2024.

In the proposal, the go-live is supposed to be

July 2025. For this to happen, though, they would need to finalize the rules at least by July 2024 to give banks at least one year to implement. So if the comments are due in January and they should finalize by the summer, it seems a bit unlikely that this timeline would happen. It may be at risk. So the intended go-live, as I stated, is supposed to be July 2025, with a three-year phase-in period for some aspects of the proposal.

As a result of the initial Basel III rules, so the rules that were published in 2013, which was, you know, about 10 years ago, capital at the largest banks has increased multiple-fold. After taking into --

Sorry. Please. I'm still not -- that's fine.

After taking into account the FRTB, the bank -- the Basel Committee stated in 2017 that there was no intent or plan to increase capital further. Even setting aside increase in market risk RWAs, the Basel III Endgame proposal fails to meet that objective.

I just want to highlight here on this slide the EU plans to finalize rules by the first quarter of 2024, though this may be delayed, and as of now, the

EU go-live is January 2025. The U.K. PRA is expected to publish trading book rules by the end of this year and its full set of rules by Q3 2024, with the go-live expected to be July 2025.

Sorry. Next slide.

Okay. So this slide is meant to basically show why the overall Basel III capital is so impactful. It's meant to illustrate how the rules sort of stack up today versus the proposed rules, and it's just a simplified illustration but just to give you context in terms of why, overall, the capital is increasing so significantly.

So the left two columns show the current framework today. This framework has two capital stacks: the standardized approach and the advanced approach. The standardized approach contains two components: market risk and credit risk. Market risk capital is meant to support trading activities and protect against losses due to changes in equity prices, commodity prices, interest rates, FX, and credit spreads. Credit risk capital is meant to capture the probability of loss if a borrower defaults.

And then if you look at the advanced approaches stack, it contains these two components but additionally also has operational risk and credit valuation adjustment, or CV. Operational risk capital is meant to capitalize failed people, processes, systems, and the adverse events that could disrupt the business operations. CVA risk capital is meant to support the mark-to-market losses associated with counterparty credit risk deterioration. For the U.S. G-SIBs today, the standardized approach generally is the binding constraint under the current rule due to higher risk-weighted assets, or RWA, and the applicability of the stress capital buffer, SCB. So basically, when you look at these two stacks, the banks are currently bound by the standardized approach given that the risk weights are so much higher, and they have to apply an additional buffer to the standardized stack.

The proposed rules, as you can see, will be in the two right-most columns. These two stacks show the standardized approach and the expanded risk base, or

ERB. Under the proposed rule, ERBA will be the new binding constraint for U.S. G-SIBs, given the total RWA of this stack will be greater than the standardized approach. So basically, in moving to the new framework, banks will -- which are now mostly constrained by the standardized approach, will now be constrained by ERBA, and because ERBA contains CVA and ops risk, these components will now bake -- be baked into their total binding capital requirement, which is quite significant.

According to data published by the U.S. regulators in the proposal, they stated that total risk-weighted assets will increase by 20 percent across banking categories, relative to the current binding requirement. So relative to banks' binding requirement today, expectation is an increase of 20 percent in capital to the new binding requirement.

I'll go to the next slide. Thank you.

This slide is meant to show why the U.S. -- the Basel III Endgame proposal is so impactful to trading activities. So the U.S. capital markets are the largest in the world and continue to be the most deep

-- the deepest, most liquid, and most efficient. The capital markets are a source of competitive economic advantage for the U.S. It fuels the economy, providing almost 72 percent of equity and debt financing to non-financial corporations. U.S. corporations have better, more cheaper access to funding as a result of capital markets. However, with the introduction of Basel III Endgame proposal, the impact to trading activities and the derivatives market, as shown on this slide, will be quite significant. The data on these slides are estimate from the U.S. prudential regulators and are taken from the Basel III Endgame proposal.

The main portions of the rule that would impact the derivatives markets are market risk, CVA, and operational risk, and can be -- operational risk attributed to trading businesses. Based on the data, the capital associated with trading activities will increase by $880 billion, or 157 percent in -- for trading activities. Market risk alone will increase by 75 percent. This is a significant increase in capital for the -- for these businesses. The industry is currently conducting our own data study to determine the overall impact of these proposed rules, including that of the derivatives businesses.

And I think that's it for me in terms of the introduction. I'll hand over to Jackie to talk more specifically about clearing.

MS. MESA: Thanks, Lisa. I thought that was a great introduction of the rules. I'm going to talk about why it matters and should matter to the CFTC really what's happening on the bank capital side. First of all, I also want to address that many of the rules that Toks at J.P. Morgan will go into detail about, the U.S. has gone above and beyond what the U.K. prudential regulators and the EU prudential regulators have done regarding cleared derivatives. So just to start off, I'm going to use the CFTC data to show why the capital rules are so impactful and talk about FCMs. Chris Perkins mentioned this in his statement about one of the proposals, and I'm going to talk about why the concentration and those in the market will really be impacted by the capital rules.

So using the CFTC's own data, which I know the commissioners are well aware of, 2023 data from the CFTC FCM Tracker shows that there's 47 registered FCMs providing customers with access to exchange-traded derivatives markets, which is really a 50-percent decline during the past 20 years, and that's been happening over time. There was a steep decline post-crisis, but then it continues to happen. A majority of those remaining FCMs doing the business, particularly on the OTC clearing side, are bank holding company subsidiaries, which the capital rules impact.

Regarding OTC clearing, when the Dodd-Frank reforms became effective in 2014, there were 22 FCMs providing OTC clearing. Today, there's only 12 clearing banks with seven of those banks comprising 94 percent of the market, and this is according to the U.S. data, so I don't have those kind of published numbers on the EU or Asia side.

If you flip to the next chart here, the green bar shows the margin in the system, required margin, and it shows that for OTC clearing, in 2014 -- of course, this is post-reform -- the reforms are just coming into place. I think the green bar the CFTC should feel very proud of because the goal was clearing. The goal was to move most of this bilateral, especially the standardized, into clearing, and it has worked, and you see the margin going up, up, up. Even in 2023, OTC clearing has been increasing. However, the orange bar, the FCM count, as I just said, has been going down, down, down, down, and that's -- it's largely due to just the heavy cost of getting in this business, including capital. Capital is a huge impact. You have to do scale to make any money in the OTC clearing business. On the right chart, you see who's doing this business, according to the U.S. data. It's the six G-SIBs, so those are in the U.S. and, again, U.S. data, but it's largely representative of the global market, and this is data as of July 2023.

The reason I'm going to talk about futures clearing and what the numbers look like here is because the rules on the Basel Endgame, which Lisa just presented, impact both OTC cleared and futures. So in the futures, you see the -- again, the blue bar shows the amount of margin in the system. I love this chart because if you look at 2008, you see margin going up. Of course these are all stressful peak times, but it also shows that people aren't flooding out of the markets. They go to the markets to manage and hedge their stress and risk.

So 2008 crisis, 2009, you see increase in margin, but people are staying in the market. You see that in the pandemic in 2020, see it again in Ukraine -- the Russian invasion of Ukraine in 2022, and margin remains high, but so does trading in the futures markets. Again, a similar picture, although more diverse with non-bank FCMs in this space as well and more international players. You still see the U.S. G-SIBs at the top of the futures trading.

So I'm not going to go into detail because Toks will, but just to lay it out a little bit, the Federal Reserve proposed a U.S. G-SIB surcharge, and that is extra capital on top of the total bank for the very largest. That actually has a huge impact for cleared derivatives. They made a change that Toks will go into. It's very impactful for client clearing. Next, the Fed, FDIC, and OCC had a proposal on the Basel III

Endgame, again, including OTC cleared and futures. There's a number of proposed changes that will impact the capital for those U.S. banks doing this business.

So finally, I just want to talk about what we see happening and what we're hearing from our members. Currently, the ecosystem is already at a capital point where they are managing their capital day to day in the clearing business, with capital potentially going up with the enormity that we are predicting. And, as Lisa said, we're collecting data right now, but you can use public data to kind of assess what it looks like for capital for these entities doing the business, and it's going to go up significantly if these proposals go through. There is no doubt that it will make it more expensive for the end users to hedge. It's just -- it's just true. They're not going to -- those clearing members are not going to absorb all the costs of capital increase.

And what does that mean? Well, it means that you either -- there's more expensive downstream effects for those in the energy markets, those in the food, insurance, et cetera, will be passed on to the real economy, or they decide not to hedge, which is worse. If you look at Silicon Valley Bank, one of the reasons they said that they had a stress moment and actually folded was they stopped utilizing the interest rate market to hedge their risk. So I think that should resonate with our prudential regulators. That was a -- that was a key concern.

But for the CFTC, one of the reasons that everyone wanted to mimic the cleared space post-Dodd-Frank was porting. Porting is essential in the market and a real benefit, but it also, you know, matters if somebody's going to take those ported clients. And one of the things the banks look at is what will be the capital hit if they take all those clients, and if you are at capacity, you don't have to take the clients, right? You would say no. So in Lehman, Barclays took all those clients. Would we -- if the same scenario happened today, would we have another large clearing member who would take those clients in a stress period? I think today, perhaps. With these capital rules, perhaps not, and that's what I think regulators should be concerned about.

So I'm going to hand it over, with that, to Toks to get into some of the details about the capital rules.

MR. OYEBODE: Thank you. I'm Toks Oyebode. I'm the Managing Director of Regulatory Affairs at J.P. Morgan. I appreciate the opportunity to speak to the GMAC about this important topic of the impact of these proposals on the derivatives market and on CFTC registrants. I think Jackie and Lisa have already done a great job of setting out some of the macro-level impacts of these proposals, which, obviously, will be very significant. You know, Lisa quoted the number of 157-percent increase based on the most recent set of proposals, and I think it's important to recognize that that comes on top of the recently-implemented standardized approach to counterparty credit risk as well.

I will provide the perspective of J.P. Morgan as a bank-affiliated futures commission merchant and swap dealer active in both the ETD and OTC markets. And I think, you know, as we think through these proposals, it's important to bear in mind that uplift in capital have real impact on the business that we do on a desk-by-desk basis and on a business-by-business basis. And what I mean by that is as the hurdle rates change for those businesses, you know, banks will have to make decisions about where to grow and invest relative to where to reduce or eliminate certain activity that they do.

You know, from our perspective, we recognize that there's a need to make sure that derivatives activity conducted by banks, whether it's clearing or trading, is appropriately capitalized, but that needs to be done in a way that recognizes existing risk mitigants in the system, so clearing, margining, et cetera, and also is done in a way that's consistent with broader policy objectives. And by that I mean things like the post-2008 reforms that have encouraged or mandated clearing.

So with that as a sort of intro, let me come on to a couple of the particular elements of these proposals that we find most concerning for the derivatives market. So the first one is around G-SIB and, in particular, the impact that G-SIB changes may have on derivatives clearing. So as I think people are aware, the G-SIB buffer is really there to reduce the likelihood and impact of the failure of a large bank, right? So it's there to capitalize and, in some cases, disincentivize activity that's seen as systemically risky. And so it's intuitive that today, the G-SIB calculation excludes OTC-cleared notionals under the agency model because clearing actually reduces complexity in the system, and it reduces interconnectedness in the system.

However, counterintuitively, going forward, under the G-SIB proposal, those OTC cleared notionals would actually be included in the complexity and interconnectedness indicators within the G-SIB score, and that would significantly impact the G-SIB footprint, increasing G-SIB footprint of client clearing businesses within banks. And we think that that is a concern, for the reasons that Jackie set out, in terms of disincentivizing the provision of that service to end clients, which runs counter to the broader policy objective of actually encouraging or mandating more clearing of derivative transactions. I think it's also notable that the these changes would start to normalize the treatment of cleared derivatives relative to uncleared derivatives within G-SIB, which, again, is counterintuitive from our standpoint. So that's G-SIB.

The second item I would like to cover is op risk. So Lisa presented the chart that shows that the capital stacks are being restructured under the Basel III Endgame proposal, and operational risk capital charges will now become part of the capital stack that is a binding constraint for many banks. The operational risk capital charge includes a number of different components within it. One of them is historical losses, which are actually already captured in another capital component called the stress capital buffer. A second element of the operational risk capital charge relates to fee and commission-based revenues, and I think it's widely acknowledged that this particular component is quite punitive for fee- and commission-based businesses, such as derivatives clearing.

I think the other thing that's important to remember when we talk about op risk capital is that it's basically a tax on revenue. It's very difficult to optimize around op risk capital, and by that I mean, you know, if a business looks less attractive on a capital-adjusted basis following the implementation of an uplift, these op risk capital-related changes, you know, a business has relatively few ways to optimize or mitigate that, you know, short of repricing or exiting that business. So it's a relatively blunt measure, and it's very difficult to optimize around.

The third item I'd like to cover relates to CVA, the credit valuation adjustment. So this is a capital charge which is there, essentially, to cover the risk that the value of a derivatives contract changes based on the credit quality of the counterparty, right? So if the -- if the counterparty's credit quality declines, a bank counterparty may have to take P&L to reflect that through its own income.

Now, the CVA charge will become part of the binding capital stack for most institutions. One of the concerns we have with the CVA charge is that it applies to client-cleared activity, right? So where a clearing member is facilitating client clearing for a derivative contract, the CVA charge will apply, despite the fact that, actually, a bank has no CVA risk for that trade. The derivative contract does not appear on the clearing member's balance sheet. And so I think this is an example of a situation where the proposal is misaligned with the risk that a bank faces.

I think the other element that's worth keeping in mind here is that the U.S. implementation is super equivalent to what we see in other major jurisdictions. So, for example, in the U.K. and the EU, there are exceptions for client-cleared activity from the CVA capital charge, and actually, more broadly, if we think about the derivative market, you know, from an OTC perspective, the U.K. and the EU also provide other exemptions. So for example, bilateral swaps facing pension funds, facing sovereigns, facing certain corporate end users would be exempt in the -- in the EU. So that's CVA.

The final element I want to flag is around investment-grade corporates, and here the Basel III Endgame proposal would allow a bank to use lower risk weights for a corporate that's investment grade and has a class of publicly-traded securities. Now, if we think about our customer base in both our clearing business and our counterparties in our swaps business, many of them are highly creditworthy, but they may not have publicly-traded securities, right, if we think about pension funds, if we think about agricultural producers, if we think about certain utilities. And so those counterparties will essentially be penalized by not having those publicly-traded securities, and we'll have to hold more capital when we do business with those counterparties.

So I know that's a lot of information, and this is definitely not an exhaustive list. These are just a number of examples of areas that we view as concerns at this point. You know, ultimately when we bring together these four areas with other changes in these proposals, I think our concern is that we could see a reduction in the availability of liquidity for end users, either due to a reduction in capacity coming from these bank-affiliated swap dealers and FCMs, or through an increase in prices, and we think that's actually negative overall from a financial stability standpoint.

So I'll hand over to Jeremy to provide the end user perspective on this in a minute, but I think I'll just conclude by saying that from a J.P. Morgan perspective, you know, we're very much ready to continue to work with our clients, with our peers, with the CFTC, and with their counterparts at the prudential regulators throughout this comment process and beyond. So over to Jeremy.

MR. WODAKOW: Thank you, Toks. I'm Jeremy Wodakow, the Chief Revenue Officer of Cypress Creek Renewables. Cypress Creek Renewables is a developer, owner, and operator of utility scaled and distributed solar power generation and battery storage across the country. We've successfully developed 12 gigawatts of solar to date, operate over four gigawatts, and own over two gigawatts of generation. Our mission is to power a sustainable future one project at a time.

As Chief Revenue Officer, I'm responsible for the structuring the sale of renewable power from our assets to purchasers under long-term contracts to facilitate financing and construction. Executing these transactions mitigates risk and uncertainty to our cash flow over the life of our projects.

There are three key milestones that all developers must achieve in order to build clean energy projects: first, obtaining the required permitting; second, executing an interconnection agreement to allow for the transmission of energy onto the bulk power grid; and third, ensuring sufficient cash flow to attract third-party financing from lenders and tax equity providers and generate a return on equity to incentivize investment. Basically, the project needs to be economic.

The Inflation Reduction Act, or IRA, provides unprecedented support for the transition to lower carbon emissions in the United States. The legislation is intended to catalyze investment in renewable energy projects, promote domestic manufacturing, and bolster access to efficient and low-cost capital. Despite the historic support in the

IRA, the industry is facing major headwinds coming from permitting delays, elongated interconnection queues, supply chain constraints, and increased project costs stemming from labor, equipment, and rising interest rates.

Each year, Lazard publishes the levelized cost of entry for renewable energy projects, which is considered the industry benchmark. In 2023, for the first time since inception of the report in 2009, the LCOE increased and did so by a factor of 2 to 3X. The result of this is that renewable generation is not meeting pace with expectations. Per the EIA, actual utility-scale installations are 44 percent under expected installations for the first half of 2023, 5.9 gigawatts of installed generation versus 10.5 of expected installations.

The proposed rules completely rewrite the capital standards that banks are subject to. Among other things, it significantly raises the cost for banks to provide hedging services and funding to their clients, such as Cypress Creek, which will create additional headwinds to developing renewable energy projects, particularly to the economic viability. Our project returns are vulnerable to volatility and power prices, and initial investments need to be recouped over a long-time horizon, over 20 years.

Project lenders and tax equity investors are willing and eager to invest in our development skills and operational ability. However, they're typically not looking to make directional bets on the power markets, given that it is essential for us to be able to hedge the risks of our projects in order to provide cash flow certainty without tying up cash collateral. Without hedging, the revenue that our projects make is inherently volatile and will vary daily based on realized power prices in the power markets. This can vary month to month, day to day, and hour to hour, based on a number of factors, including fossil fuel supply and prices, operations of other power plants in the area, or the weather.

Hedges de-risk projects by swapping out daily price volatility that power producers are inherently exposed to in exchange for a guaranteed fixed price that we receive from our counterparty. As developers, we typically hedge the power generated by our projects via two main avenues. The first is executing a PPA with a utility or with a corporate. The second is hedging in the wholesale commodity market, which is largely comprised of the investment banks that are going to be impacted by this proposal. That's the avenue that's most relevant to the discussion today.

A PPA with a utility or corporate is not always an option for every project, nor is it necessarily the alternative that will make the project most economically viable. In the wholesale market, banks provide customized derivative hedging products that help mitigate our bespoke risks and provide cash flow certainty that allows us to raise the funding we need to construct our projects. These derivatives are typically secured by non-cash collateral, which allows us to continue investing our cash into the advancement of our projects rather than reserving it for price risk management.

Because we're in effect selling what we already own, Congress and the CFTC have long considered end user hedging as inherently much less risky than speculators' use of derivatives, and has exempted end users like us from having to margin our derivative transactions. Yet the new requirements on derivatives, the so-called CVA standards, are especially punitive for un-margined derivative transactions. By increasing the capital requirements that banks will have to hold against power derivatives by two to three times, the market is very likely to become less liquid and more expensive for end users to access. This may eliminate an important tool that we currently have in our toolbox to get renewable projects built, potentially reducing the continued growth of renewable power in the United States.

In addition to wholesale market participation, banks also act as direct providers of third-party capital, including tax equity investments, which are crucial to fund renewable development. Tax equity has been critical -- a critical financing source for clean energy projects and represents 30- to 40-plus percent of the capital structure of each new project that's built. To meet the goals of the IRA, many forecasters estimate that the tax equity market will need to increase from a $20 billion annual market to a $50 billion market.

Domestic banks have been the major providers of tax equity, representing over 80 to 90 percent of the market in any particular year. Banks are poised to increase their tax equity investments to meet this demand. However, the impending changes in bank regulatory capital requirements would quadruple the capital requirement on tax equity investment, which is not reflective of its risk profile and could severely reduce their appetite to provide tax equity to the market.

Leading tax equity providers anticipate that the annual tax equity investment in the clean energy sector could shrink by 80 to 90 percent, and many banks could exit the renewable tax equity market entirely if the 400 percent risk weight is applicable. Further, tax equity investments, by their nature, are sized in proportion to the amount of taxable income that banks expect to have in any particular year. Many of the capital changes proposed in the Basel III Endgame proposal include -- including the operational risk capital proposal, can only be managed through a drop in bank income. A drop in bank income will commensurately reduce tax equity capacity in the U.S. banking system.

Together, all these proposed changes will likely make it more difficult for renewable developers, such as Cypress Creek Renewables, to efficiently hedge risk and access the capital markets to provide returns required to turn capital into renewable energy generation capacity in the ground. This will undercut many of the government's policy objectives that it so thoughtfully created, including many of these incentives recently created through the IRA. As we continue to evaluate the proposal, we look forward to engaging with the CFTC and the prudential regulators on the issues that are unique to the renewable energy companies like ours. Happy to take any questions.

MS. BRADBURY: Thank you. Thank you to all the panelists. It's really helpful, especially for those of us who don't work for large banks. You know, when faced with this 600-page long proposal, we've been trying to figure out, well, how is it going to affect us. And so I think highlighting issues around, whether it's the ability to access derivatives dealers, our counterparties in clearing, you know, the impact on our trading counterparties more generally, or end users, and I hear you. We also have a subsidiary that's very big in the renewables business. And there's a lot going on already, and I hadn't even thought about how the bank capital rules might affect it, so thank you very much.

I want to turn it over now to Steve Kennedy, who's going to present a paper very pithily titled, "Hidden in Plain Sight," that I think provides an important backdrop to a lot of the discussion on the recommendations from the Technical Issues Subcommittee, because it refers to data that has been mandated to be collected by the regulators but isn't always well structured for them to use and isn't always available. Therefore, they just keep piling on more requirements. So, Steve, I'll turn it over to you.

MR. STEVE KENNEDY: Thank you, Darcy. Thank you, Amy, and thank you, Commissioners. Apologies for not being there in person, but appreciate the opportunity to talk to you about this important topic.

So no surprise, recent market turbulence, market volatility has raised some concerns among some policymakers about the level of exposure and activity related to derivatives. And we've heard this term, "hidden leverage," used several times, and in speaking to policymakers about it, there seem to be three different channels for it. One is are some firms outside the regulatory perimeter so policymakers might not see the derivatives risk exposure they're taking on? The second is the firms might be inside the regulatory perimeter, but the regulators aren't asking for the right types of risk information, exposure information to be able to monitor this. And the third is that maybe the regulators are getting the information, but they don't know what to do with it. They don't understand it.

So we took these concerns to heart and did an analytical paper that really tries to answer three questions. One is what information is available on derivatives activity and exposures; two, how can it be used officially and effectively to address the concerns expressed by policymakers; and then three, how can it be shared amongst policymakers within and across jurisdictions to provide a more holistic view to them of derivatives activity exposures. And we spoke to a lot of market participants, we spoke ex-policymakers about this, and one thing is very clear. The data is there. The data to be able to look to see what individual counterparties and counterparties in a common group structure, it's there in terms of the legal entity identifiers, which are available, as I said, for individual entities, but can also be mapped across entities in a common group structure.

And then on the activity and exposure side, the notionals are reported every day. Mark-to-market values are reported. Delta is reported for options and swaptions, and then DVL-1 is -- can be constructed for all transactions, but it will be reported starting next year. So all this information is available, but it's a bit on the messy side. It's not a perfect framework.

And there are two factors that policymakers and market participants need to keep in mind. To make the data more usable and more functional is the need for data curation and analytics to cleanse and standardize data. And I think people who deal with data day in and day out, they take this -- you know, they almost take it for granted. But, you know, maybe there was an expectation that when this data was first compiled that it would just be like a little treasure trove that people could look at, but it requires some work and effort to cleanse it, to standardize it, and I'll talk more about that in a minute.

The other issue which prevents a deeper and more holistic view amongst policymakers with the data is that the data's siloed, and it could be siloed within a jurisdiction, between different regulatory agencies. It could be siloed between market regulators and prudential regulators, and it could be siloed between regulators in different jurisdictions. And one of the things that became clear as we talked to folks about this in Europe and in the U.S. was that there's a gap between the prudential regulatory side and the market regulatory side because the market regulators are typically the ones who get the data, and it's not always shared or used or known or examined by prudential regulators.

I think the TIW at DTCC, which has all the warehouse of information on the CDS market, is a case in point. You know, it's pretty clear that from discussions that some of the -- that there's a gap in knowledge and awareness between prudential regulators and market regulators, that it even exists, and how that data can be used. And then there's a question of how do regulators and others use the data, and I'm going to show you in a minute, if we could actually go to the next slide.

Yeah, so this is a use case. This is language taken from an ESMA analysis of Archegos, in which they went after the Archegos situation and did a review about what they could see in terms of Archegos' exposure. And it's pretty clear that ESMA could see the buildup in Archegos' exposure, and they could see the buildup in risk concentration, they could see the change in the mark-to-market values, but they saw them on an ex-post basis. And one of the things we tried to make clear in the paper was that if you can see them on an ex-post basis, then you should be able to build a management dashboard that lets you see them as they occur.

And this is really kind of the future state of derivatives trade data analysis, right, to not only have a database or warehouse of data, to be able to use it constructively to be able to spot, on a weekly or daily basis or a monthly basis, an increase in notional, an increase in DVL-1, an increase in mark-to-market values, which indicate other things. And so you can see here the ESMA use case analysis.

And if we go to the next slide, there's also one that the SEC did with regards to a proposal they have out on large position reporting in which their, you know, Division of Economic Research and Analysis used their securities-based swap data to do a pretty fulsome analysis. And if you see in the second paragraph, it says, "We first curate the SBSDR data. In our data set, there are 8,523 unique market participants identified by legal entity identifiers that have at least one reported equity security-based swap." And then in the next paragraph, it talks about some of the curation issues they needed to go through. But again, I think from a data management and a data analytic standpoint, some of this stuff is pretty common, not to say it's not -- it's not a challenge, but it can be done.

So it's -- so we've been talking to policymakers in the U.S. and Europe about this with the hopes that we can engage constructively with them to help them understand the data that's available and how it could be used, and the resources that, in terms of time and probably money, to be able to make more fulsome use of it. Happy to send anybody the paper who would like to see it. It's also on our website.

MS. BRADBURY: Well, you actually fit it within your seven minutes, Steve, so thank you. We appreciate it very much. The paper is interesting. It's obviously on the ISDA website for anyone who wants it, or email Steve, your fellow GMAC member. But I think it does highlight that there are -- it takes work to use the data in these data repositories. Certainly, I think most of the firms around this table spend a lot of time working with data and complex data sets that you have to cleanse and understand and reformat and make more usable for your particular purposes. So I think it lays a good groundwork for heading into our next set of recommendations where we're going to hear from the GMAC Technical Issues Subcommittee: Co-Chairs Alison Lurton, FIA; Tara Kruse, ISDA; Teo Floor, CCP Global; Chris Childs, DTCC. So whoever wants to begin.

MS. LURTON: I'd be happy to start. Thank you.

MS. BRADBURY: Thank you.

MS. LURTON: Thank you, Darcy and Amy, for your leadership, and to Brigitte for keeping us organized, and thank you, Commissioner Pham, for sponsoring this work. I agree, Darcy, that's a good presentation to get us into a few of the recommendations from the Technical Issues Subcommittee. I also want to thank the members of the Technical Issues Subcommittee for the work they've put in. I'm in the room, as is Chris, who will be presenting our last recommendation, but we do have on the line Teo and Tara, who have -- I think I'm going to turn it over to Tara for a few opening words, and then she will make some presentations after Teo. So for that, turn it to you, Tara.

(No response.)

MS. BRADBURY: Tara, you're muted. I don't know if you can hear us.

MALE SPEAKER: Hey, Darcy?

MS. BRADBURY: Yes?

MALE SPEAKER: She'll be right there. Her computer froze. She's --

MS. BRADBURY: Oh dear. Okay.

MALE SPEAKER: Sorry.

MS. BRADBURY: Brigitte had that issue earlier, so we're sympathetic up here.

MALE SPEAKER: Maybe I'll just let her use mine. Hang on one sec. Sorry.

MS. BRADBURY: All right. If it doesn't resolve, we'll move to Teo, so.

(Brief pause.)

MALE SPEAKER: Hold on. It'll just be another minute.

MS. BRADBURY: Well, maybe we could have Tara's remarks be the concluding remarks to sort of wrap up the four presentations, and we could start with Teo, who's going to talk about one of my favorite recommendations of the day, the idea of doing fire drills. So, Teo?

MR. FLOOR: Can you hear me? Can you see me?

MS. BRADBURY: Yes, we can hear you.

MR. FLOOR: Wonderful. Well, I'm delighted to hear that it's one of your favorite recommendations. I'm honored. I think -- apologies that I couldn't be there in person, but it's a pleasure to speak, and thank you very much, Commissioner Pham and Brigitte Weyls, of course, for arranging this, and to our wonderful Co-Chairs, Allison and Tara.

I'm Teo Floor from CCP Global, the global association for central counterparties. It's a great honor and pleasure to be here. We have a small two-part recommendation from our Technical Subcommittee to the Commission to consider, provided GMAC agrees. It is concerning the rule of the CFTC and fire drills. We're honored that so many market participants and CCPs are going to be conducting simultaneous fire drills starting next week. This is meant to test the operational capacity and the planning for how CCPs would act to rebalance following the potential default of a live real member. It's tested often because it doesn't happen so regularly, but it is really a core function of what clearinghouses, or CCPs, do.

We would request and ask that the CFTC continues the excellent work that they have thus far provided to the industry in this collaborative default simulation. The CFTC has been instrumental, alongside ESMA, the Bank of England, Buffett, and other authorities from around the world, representing really a very wide and diverse set of clearinghouses and, ultimately, their participants, in arranging such a fire drill. We're also looking forward to developing best practices, sort of reporting -- maybe a report in addition to other potential best practices following this default simulation. And as part of that, I think support from authorities, such as the CFTC, is instrumental and highly valuable for all involved.

The second part of the recommendation arises from the lack of default simulations which are conducted in some emerging markets or other relatively new central counterparties. In those cases, the CFTC, as we understand, has quite a large and active capacity building program, advisory functions to help other authorities and jurisdictions adapt best practices in some of the very well understood and exercised elements of the CFTC's arrangements. We would advise that the CFTC includes lessons learned and best practices and then urging to begin conducting simulations in those kinds of dialogues. We have many of those CCPs around the world as our members. They're looking to us as an association and community to help advise and teach them how to conduct such drills. And should the CFTC be able to echo that on the official sector side, I think that would be of great use.

So those are our short recommendations, and thank you once again to the Co-Chairs, the committee for considering this proposal and recommendation. I'm, of course, open to any questions. Thank you.

MS. BRADBURY: Yeah. Thank you. Any particular questions or comments on this one?

(No response.)

MS. BRADBURY: And I didn't see any hands raised online, so all right. Welcome, Tara. We're sorry you had computer problems.

MS. KRUSE: Thank you.

MS. BRADBURY: But we suggested perhaps your introductory remarks could become concludatory -- concluding remarks. I got that wrong. But in any case, could you talk about the next recommendation, the Money Market Funds as Eligible Collateral, another one -- you're going to start to think I have lots of favorites -- but near and dear to my heart because this was a major recommendation from the last GMAC that I served on, and so happy to hear that we're getting closer on it. So, Tara?

MS. KRUSE: Yeah. Thank you, Darcy, and sorry for the challenge there. Yes, indeed, I mean, I think it's great to see that the CFTC has, in fact, taken action off of that recommendation that was made back in July of 2000.

According to the CFTC's non-cleared margin rules, cash used to meet a margin call is required to be transformed into another form of eligible collateral. Money market funds are traditionally used when a pledger meets margin requirement with cash and then the custodian transforms or sweeps the cash into a money market fund. Money market funds are an attractive option for legal entities and funds which don't have ready access to other types of eligible collateral due to their investment strategies.

Most global jurisdictions allow the use of money market funds, but there's really two primary factors that impede the harmonization of money market funds across borders. One is whether the fund is allowed to use asset transfers, like securities lending or repurchase agreements, and secondly, whether non-domestic funds can be used, often referred to as third country funds.

So we really welcome the CFTC's rule amendment. The CFTC's rule currently allows for the use of third country funds but doesn't allow for asset transfers. The proposed amendment would eliminate the restriction on asset transfers. This has a number of benefits, including the fact that it opens up a larger pool of money market funds to be used both within the U.S. and across borders. It reduces higher costs associated with transforming cash prior to pledging, and it can reduce cases where cash is held with the custodian overnight since funds that allow asset transfers generally have later cutoff times.

So the subcommittee recommends that the CFTC finalize its rule amendment as proposed, while taking into consideration feedback from market participants in response to the corresponding request for comment, for instance, not conditioning eligibility on the money market fund clearing its repo transactions, and not adopting the money market fund haircut footnote, which uses a weighted average discount. Adopting that amendment is going to eliminate the asset transfer restriction, and it'll harmonize the CFTC's parameters for use of money market funds as collateral with the United Kingdom.

The next step after that is for the CFTC, we would encourage them to ask other regulators to take action to facilitate broader use of money market funds. Without similar action taken by U.S.

prudential regulators to align the conditions, cross-border use of money market funds will only be available to non-prudentially-regulated swap dealers and their counterparties. Now, even -- and the proposed rule amendment's going to resolve the asset transfer discrepancy with the EU where most EU USETs allow the use of those transfers, but now the ball is in the court of the EU to address their third country restriction, and we'd request that the CFTC encourage them to do so.

That concludes my comments in respect of the second recommendation.

MS. BRADBURY: Thank you. Any questions or comments for Tara on the money market fund proposal?

(No response.)

MS. BRADBURY: And I don't see any hands up in the remote, so, Tara, I think you have the third one as well on improved trade reporting for market oversight.

MS. KRUSE: Oh, I do indeed. I'll take that on. So this one is about streamlining reportable data elements. We understand that the CFTC is planning to issue a notice of proposed rulemaking that would amend its Part 43 and 45 reporting requirements to potentially add over 50 additional fields. That's on top of the current 128 data elements that came into effect on December 5th.

In 2017, the Division of Market Oversight issued a roadmap to achieve high-quality swaps data, with the objective to streamline the swap data reporting requirements and right size the number of data elements necessary to fulfill the Commission's regulatory oversight function. This potential 40-percent increase in the number of reported data elements strays from those objectives. We also think it distracts from optimizing analysis and use of the recently-expanded data set, as suggested in the paper discussed by Steve Kennedy a moment ago. It also creates further obstacles for meaningful global data aggregation and analysis since the majority of the data fields, as I understand, are CFTC specific and not critical data elements, or CDE, which are also reportable in other jurisdictions.

So we recommend that the CFTC reconsider issuing the NPRM altogether or else limit the scope of proposed additional data elements by eliminating the approximately 30 CFTC-only fields, which are not part of the global CDE, by excluding approximately nine commodities data elements and consider those when they consider the timeline and requirements for commodities' UPI. Also, they could exclude around 10 potentially duplicative data fields for which the relevant information will be available via the reported UPI.

We instead suggest that expanding analytical tools to make best use of the recently-expanded data set and focusing on resolving impediments to data sharing within and across borders will allow them to gain a better understanding of global risk exposures. Thank you.

MS. BRADBURY: Thank you, Tara. Any questions or comments on these recommendations?

(No response.)

MS. BRADBURY: And I don't see any hands up on the remote. Thank you, Tara.

MS. KRUSE: Thank you.

MS. BRADBURY: And our fourth, returning to Chris Childs to talk about improved trade reporting for market oversight.

MR. CHILDS: Thank you. I'd like to discuss some recommendations relating to furthering the goal of global data sharing and systemic risk analysis. I hope this is not too confrontational inasmuch as these recommendations don't require any changes in CFTC rules nor positioning for that matter.

Multiple jurisdictions are currently going through an implementation phase of revised rules for OTC derivative trade reporting. New rules are predicated on implementing a more globally-aligned data set based on recommendations from CPMI and IOSCO for the adoption of critical data elements, unique product identifiers, and unique transaction identifiers. The goal here is to facilitate global amalgamation when required. However, in order to enable data amalgamation, there are more than issues relating to the data itself that need to be addressed.

So the subcommittee would like to propose to the CFTC, uses its position as a preeminent and thought leader regulator in the trade reporting space to, first, work with other regulators, both market regulators and prudential regulators, to create a governance framework that would enable the sharing of data. Ultimately, that may morph into a more global data sharing governance framework, but in the short term, we feel that that can be achieved through bilaterally-agreed agreements or memorandums of understanding, we think, starting with the U.S. and North American regulators and then turning to other significant global regulators thereafter.

While, as I said, the new rules are predicated on greater harmonization, there are still significant differences in the data collected across the jurisdictions, but the subcommittee believes, through analysis conducted by DTCC ourselves and others, we do believe that the core financial elements of trades will be sufficiently consistent so as to enable amalgamation of data. So while we prefer to see continued movements towards greater harmonization, the second recommendation is for the CFTC to propose to the Regulatory Oversight Committee, or the ROC, which has oversight responsibilities of UPI, UTI, and CDA -- CDE, to work on creating a subset of the CDE that would be used for amalgamation. This can be then turned into a data extract specification that all repositories can develop to so that when the -- there is a need for data amalgamation, the data coming from old trade repositories will be in a standard form. We've also said, actually, if it would help, that the subcommittee would be willing to work on a proposal of this amalgamated data set so that the ROC have something to start with.

The third recommendation, which is probably a longer-run recommendation, is that we propose that the CFTC discusses with an existing joint regulatory organization, such as IOSCO, the formation of industry working groups, comprising of industry participants, industry associations, and regulators, to assess and address data-sharing issues under three key areas. The first is the governance legal and regulatory framework, the second is access mechanisms and sharing processes to allow an amalgamated data set, and then the third is identifying non-data-related processes and reporting issues that may impact data quality upon amalgamation. And with that, I'm willing to -- open to questions.

MS. BRADBURY: Any questions or comments on the fourth recommendation?

(No response.)

MS. BRADBURY: And I don't see any hands raised for remote participants. Tara, we had suggested while you were having your computer problems that you might want to turn your opening remarks into concluding remarks, so we'd be happy to have you give us that perspective at this point before we turn to motions.

MS. KRUSE: Thank you, Darcy. Appreciate it. Yeah, I just wanted to, I think, you know, echo Allison's remarks. Commissioner Pham, I want to thank you for the opportunity to co-chair the Technical Issues Subcommittee. It's been a pleasure so far to work with this group of individuals. Thank you, Brigitte, for your guidance, Amy and Darcy, for your leadership, and Commissioner Mersinger for your support. I'm in London today, so apologies I'm not able to join you in person. We really appreciate the opportunity to present the four recommendations you've just heard that have been approved by the Technical Issues Subcommittee for your consideration. Thank you.

MS. BRADBURY: All right. So can I have a motion to move all four recommendations, which will then be voted on in turn like we did last time?

MALE SPEAKER: Motion.

MS. BRADBURY: And a second?

MALE SPEAKER: Yeah, I'll second.

MS. BRADBURY: Thank you.

MS. WEYLS: GMAC members, when I call your name, indicate with a yes, no, or abstain. We will start with the first recommendation, the Global Default Simulation.

Chris Allen?

MR. ALLEN: Yes.

MS. WEYLS: Perianne Boring?

(No response.)

MS. WEYLS: We'll move along. Darcy Bradbury?

MS. BRADBURY: Yes.

MS. WEYLS: Isaac Chang?

MR. CHANG: Yes.
MS. WEYLS: Nadine Chakar?
MS. CHAKAR: Yes.
MS. WEYLS: Chris Childs?
MR. CHILDS: Yes.
MS. WEYLS: Jason Chlipala?
MR. CHLIPALA: Yes.
MS. WEYLS: Gerry Corcoran?
MR. CORCORAN: Yes.
MS. WEYLS: Adam Farkas?
MR. FARKAS: Yes.
MS. WEYLS: Scott Fitzpatrick?
MR. FITZPATRICK: Yes.
MS. WEYLS: Amy Hong?
MS. HONG: Yes.
MS. WEYLS: John --
(Audio interference.)
MS. WEYLS: I think we need to --
MR. HORKAN: Yes.
MS. WEYLS: -- to mute who's ever -- Okay. John Horkan?
MR. HORKAN: Yes.

MS. WEYLS: Angie Karna?
MS. KARNA: Yes.
MS. WEYLS: Kevin Kennedy?
MR. KEVIN KENNEDY: Yes.
MS. WEYLS: Steve Kennedy?
MR. STEVE KENNEDY: Yes. Excuse me. Yes.
MS. WEYLS: Agnes Koh?
MS. KOH: Yes.
MS. WEYLS: Mary-Catherine Lader?
MS. LADER: Yes.
MS. WEYLS: Ben Macdonald?
MR. MACDONALD: Yes.
MS. WEYLS: Jackie Mesa?
MS. MESA: Yes.
MS. WEYLS: Erik Tim Muller?
MR. MULLER: Yes.
MS. WEYLS: John Murphy?
MR. MURPHY: Yeah.
MS. WEYLS: Joseph Nicosia?
MR. NICOSIA: Yes.
MS. WEYLS: Dave Olsen?
MR. OLSEN: Yes.

MS. WEYLS: Tetsuo Otashiro?

MR. OTASHIRO: Yes.

MS. WEYLS: Christopher Perkins?

MR. PERKINS: Yes.

MS. WEYLS: Thomas Pluta?

MR. PLUTA: Yes.

MS. WEYLS: Sachiyo Sakemi?

MS. SAKEMI: Yes.

MS. WEYLS: Tom Sexton?

MR. SEXTON: Yes.

MS. WEYLS: Andrew Smith?

MR. SMITH: Yes.

MS. WEYLS: Jason Swankoski?

MR. SWANKOSKI: Yes.

MS. WEYLS: Brad Tully?

MR. TULLY: Yes.

MS. WEYLS: Thane Twiggs?

MR. TWIGGS: Yes.

MS. WEYLS: Jason Vitale?

MR. VITALE: Yes.

MS. WEYLS: Stuart Williams?

MR. WILLIAMS: Yes.

MS. WEYLS: Julie Winkler?

MS. WINKLER: Yes.

MS. WEYLS: Vadim Zlotnikov?

MR. ZLOTNIKOV: Yes.

MS. WEYLS: And finally, Chris Zuehlke?

MR. ZUEHLKE: Abstain.

MS. WEYLS: So the yeses have it with all yeses voted from members in attendance and one abstain.

We'll move on to the next Technical Issues recommendation, which is Money Market Funds as Eligible Collateral.

Chris Allen?

MR. ALLEN: Yes.

MS. WEYLS: Perianne Boring?

(No response.)

MS. WEYLS: Darcy Bradbury?

MS. BRADBURY: Yes.

MS. WEYLS: Isaac Chang?

MR. CHANG: Yes.

MS. WEYLS: Nadine Chakar?

MS. CHAKAR: Yes.

MS. WEYLS: Chris Childs?

MR. CHILDS: Yes.
MS. WEYLS: Jason Chlipala?
MR. CHLIPALA: Yes.
MS. WEYLS: Gerry Corcoran?
MR. CORCORAN: Yes.
MS. WEYLS: Adam Farkas?
MR. FARKAS: Yes.
MS. WEYLS: Scott Fitzpatrick?
MR. FITZPATRICK: Abstain.
MS. WEYLS: Amy Hong?
MS. HONG: Yes.
MS. WEYLS: John Horkan?
MR. HORKAN: Yes.
MS. WEYLS: Angie Karna?
MS. KARNA: Yes.
MS. WEYLS: Kevin Kennedy?
MR. KEVIN KENNEDY: Yes.
MS. WEYLS: Steve Kennedy?
MR. STEVE KENNEDY: Yes.
MS. WEYLS: Agnes Koh?
MS. KOH: Abstain.
MS. WEYLS: Is that a yes?

MS. KOH: Abstain.
MS. WEYLS: Abstain? Thank you.
MS. KOH: Yeah.
MS. WEYLS: Mary-Catherine Lader?
MS. LADER: Abstain.
MS. WEYLS: Ben Macdonald?
MR. MACDONALD: Yes.
MS. WEYLS: Jackie Mesa?
MS. MESA: Yes.
MS. WEYLS: Erik Tim Muller?
MR. MULLER: Yes.
MS. WEYLS: John Murphy?
MR. MURPHY: Yes.
MS. WEYLS: Joseph Nicosia?
MR. NICOSIA: Yes.
MS. WEYLS: Dave Olsen?
MR. OLSEN: Yes.
MS. WEYLS: Tetsuo Otashiro?
MR. OTASHIRO: Yes.
MS. WEYLS: Christopher Perkins?
MR. PERKINS: Yes.
MS. WEYLS: Thomas Pluta?

MR. PLUTA: Yes.
MS. WEYLS: Sachiyo Sakemi?
MS. SAKEMI: Yes.
MS. WEYLS: Tom Sexton?
MR. SEXTON: Yes.
MS. WEYLS: Andrew Smith?
MR. SMITH: Yes.
MS. WEYLS: Jason Swankoski?
MR. SWANKOSKI: Yes.
MS. WEYLS: Brad Tully?
MR. TULLY: Yes.
MS. WEYLS: Thane Twiggs?
MR. TWIGGS: Yes.
MS. WEYLS: Jason Vitale?
MR. VITALE: Yes.
MS. WEYLS: Stuart Williams?
MR. WILLIAMS: Yes.
MS. WEYLS: Julie Winkler?
MS. WINKLER: Yes.
MS. WEYLS: Vadim Zlotnikov?
MR. ZLOTNIKOV: Yes.
MS. WEYLS: And Chris Zuehlke?

MR. ZUEHLKE: Yes.

MS. WEYLS: So the yeses have it with three abstains, and this recommendation as well as the -- I don't think I said it before -- the Global Default Simulation will both be moved to the Commission for consideration.

And on to the third Technical Issues Subcommittee recommendation: Improve Trade Reporting for Market Oversight Streamline Potential 40% Increase in CFTC Reportable Data Elements Recommendation.

Chris Allen?

MR. ALLEN: Yes.

MS. WEYLS: Perianne Boring?

(No response.)

MS. WEYLS: Darcy Bradbury?

MS. BRADBURY: Yes.

MS. WEYLS: Isaac Chang?

MR. CHANG: Yes.

MS. WEYLS: Nadine Chakar?

MS. CHAKAR: Yes.

MS. WEYLS: Chris Childs?

MR. CHILDS: Yes.

MS. WEYLS: Jason Chlipala?
MR. CHLIPALA: Yes.
MS. WEYLS: Gerry Corcoran?
MR. CORCORAN: Yes.
MS. WEYLS: Adam Farkas?
MR. FARKAS: Yes.
MS. WEYLS: Scott Fitzpatrick?
MR. FITZPATRICK: Yes.
MS. WEYLS: Amy Hong?
MS. HONG: Yes.
MS. WEYLS: John Horkan?
MR. HORKAN: Yes.
MS. WEYLS: Angie Karna?
MS. KARNA: Yes.
MS. WEYLS: Kevin Kennedy?
MR. KEVIN KENNEDY: Yes.
MS. WEYLS: Steve Kennedy?
MR. STEVE KENNEDY: Yes.
MS. WEYLS: Agnes Koh?
MS. KOH: Yes.
MS. WEYLS: Mary-Catherine Lader?
MS. LADER: Yes.

MS. WEYLS: Ben Macdonald?
MR. MACDONALD: Yes.
MS. WEYLS: Jackie Mesa?
MS. MESA: Yes.
MS. WEYLS: Erik Tim Muller?
MR. MULLER: Yes.
MS. WEYLS: John Murphy?
MR. MURPHY: Yes.
MS. WEYLS: Joseph Nicosia?
MR. NICOSIA: Yes.
MS. WEYLS: Dave Olsen?
MR. OLSEN: Yes.
MS. WEYLS: Sorry. Tetsuo Otashiro?
MR. OTASHIRO: Yes.
MS. WEYLS: Christopher Perkins?
MR. PERKINS: Abstain.
MS. WEYLS: Abstain?
Thomas Pluta?
MR. PLUTA: Yes.
MS. WEYLS: Sachiyo Sakemi?
MS. SAKEMI: Yes.
MS. WEYLS: Tom Sexton?

MR. SEXTON: Yes.
MS. WEYLS: Andrew Smith?
MR. SMITH: Yes.
MS. WEYLS: Jason Swankoski?
MR. SWANKOSKI: Yes.
MS. WEYLS: Brad Tully?
MR. TULLY: Yes.
MS. WEYLS: Thane Twiggs?
MR. TWIGGS: Yes.
MS. WEYLS: Jason Vitale?
MR. VITALE: Yes.
MS. WEYLS: Stuart Williams?
MR. WILLIAMS: Yes.
MS. WEYLS: Julie Winkler?
MS. WINKLER: Abstain.
MS. WEYLS: And Vadim Zlotnikov?
MR. ZLOTNIKOV: Yes.
MS. WEYLS: Finally, Chris Zuehlke?
MR. ZUEHLKE: Yes.
MS. WEYLS: The yeses have it, and we had two abstains. This recommendation will also move forward to the Commission for consideration. And we will vote

on our final recommendation from the Technical Issues Subcommittee, which is, Improve Trade Reporting from Market Oversight Improving Data Sharing and Systemic Risk Analysis.

Chris Allen?

MR. ALLEN: Yes.

MS. WEYLS: Perianne Boring?

(No response.)

MS. WEYLS: Darcy Bradbury?

MS. BRADBURY: Yes.

MS. WEYLS: Isaac Chang?

MR. CHANG: Yes.

MS. WEYLS: Nadine Chakar?

MS. CHAKAR: Yes.

MS. WEYLS: Chris Childs?

MR. CHILDS: Yes.

MS. WEYLS: Jason Chlipala?

MR. CHLIPALA: Yes.

MS. WEYLS: Gerry Corcoran?

MR. CORCORAN: Yes.

MS. WEYLS: Adam Farkas?

MR. FARKAS: Yes.

MS. WEYLS: Scott Fitzpatrick?
MR. FITZPATRICK: Yes.
MS. WEYLS: Amy Hong?
MS. HONG: Yes.
MS. WEYLS: John Horkan?
MR. HORKAN: Yes.
MS. WEYLS: Angie Karna?
MS. KARNA: Yes.
MS. WEYLS: Kevin Kennedy?
MR. KEVIN KENNEDY: Yes.
MS. WEYLS: Steve Kennedy?
MR. STEVE KENNEDY: Yes.
MS. WEYLS: Agnes Koh?
MS. KOH: Yes.
MS. WEYLS: Mary-Catherine Lader?
MS. LADER: Yes.
MS. WEYLS: Ben Macdonald?
MR. MACDONALD: Yes.
MS. WEYLS: Jackie Mesa?
MS. MESA: Yes.
MS. WEYLS: Erik Tim Muller?
MR. MULLER: Yes.

MS. WEYLS: John Murphy?
MR. MURPHY: Yes.
MS. WEYLS: Joseph Nicosia?
MR. NICOSIA: Yes.
MS. WEYLS: Dave Olsen?
MR. OLSEN: Yes.
MS. WEYLS: Tetsuo Otashiro?
MR. OTASHIRO: Yes.
MS. WEYLS: Christopher Perkins?
MR. PERKINS: Abstain.
MS. WEYLS: Thomas Pluta?
MR. PLUTA: Yes.
MS. WEYLS: Sachiyo Sakemi?
MS. SAKEMI: Yes.
MS. WEYLS: Tom Sexton?
MR. SEXTON: Yes.
MS. WEYLS: Andrew Smith?
MR. SMITH: Yes.
MS. WEYLS: Jason Swankoski?
MR. SWANKOSKI: Yes.
MS. WEYLS: Brad Tully?
MR. TULLY: Yes.

MS. WEYLS: Thane Twiggs?

MR. TWIGGS: Yes.

MS. WEYLS: Jason Vitale?

MR. VITALE: Yes.

MS. WEYLS: Stuart Williams?

MR. WILLIAMS: Yes.

MS. WEYLS: Julie Winkler?

MS. WINKLER: Abstain.

MS. WEYLS: Vadim Zlotnikov?

MR. ZLOTNIKOV: Abstain.

MS. WEYLS: And Chris Zuehlke?

MR. ZUEHLKE: Yes.

MS. WEYLS: So the yeses have it, and we had three abstains on this recommendation. It will move forward to the Commission for consideration, and that concludes our voting on the Technical Issues Subcommittee recommendations, plural, and I'll pass it back to Amy.

MS. HONG: Brigitte, thank you, and many thanks to the Technical Issues Subcommittee for all of your work and for the four recommendations.

For the final portion of today's meeting, we will hear from the co-chairs of the GMAC Digital Asset Markets Subcommittee, Caroline Butler from BNY Mellon and Sandy Kaul from Franklin Templeton, on this subcommittee's workstreams. Caroline and Sandy, please begin.

MS. BUTLER: Great. Thanks, Amy, and thanks to Commissioner Pham for the opportunity to bring this workstream together, and, in particular, ensuring that we have the great representation across the traditional and the digital ecosystem.

When we met with you guys back in July, we had just formed the working group. Very pleased to say we have 36 members who are now very actively engaged across our five sub-workstreams. Our member group is very, very diverse. We've got representations from asset managers, banks, exchanges, industry working groups, and trading firms. Sandy and I would really like to say huge thanks to the members for their efforts to date. We've seen so much energy. Really, really grateful for the passion that each member is contributing and the depth of experience and the open-mindedness that each member is bringing to the working sessions.

As we noted in July, we're organized across the five workstreams, with three of them very focused on tokenization of assets and the tokenized marketplace. Those workstreams on the tokenization side really focus around nomenclature and creating a taxonomy, which I think everybody can agree is very crucial to establish a solid foundation. Also focused on pre-trade and post-trade requirements across the full suite of digital assets, so not just derivative assets but every single subcategory that exists within what we would call digital assets as an umbrella. And also focused on governance and risk control frameworks, really trying to leverage what is in place today and what can and should be enhanced for the unique risks of a digital asset. We also have two other workstreams focused on NFTs and utility tokens, and the digital asset infrastructure, which is obviously similar to taxonomy, really covers across the whole foundation.

And before I hand over to Sandy to walk you through the goals of each of the workstreams, particularly in the near term, which will really inform what you should expect to see from us in terms of recommendations going forward, I just want to remind everyone of the guiding principles that we set forth and we discussed in July for the working committees as these are really echoed throughout the behaviors of our workstream members and the working groups. The first was really about staying true to the potential of the technology and its ability to support new approaches to financial markets. So said very simply, not just take what we do today and add a new technology and do it slightly better, but really rethink new approaches to how we bring together financial markets and really truly make a step change in improving the way that we meet the needs of that market.

We also look at optimal use of infrastructure, agnostic to whether it uses the underlying public chains or private chains. We also think about matters that are broader than just sitting within the CFTC's direct mandate, so really looking at the whole ecosystem. We're also helping every member to envisage opportunities that are very independent of a party's existing role, so really bringing that open-mindedness to how we build our recommendations, which is very important. And we're also allowing the workstream leads the freedom to shape and define the scope of their mandates and outcomes, as you'll see when Sandy walks you through the near-term outcomes. Sandy, over to you.

MS. KAUL: Thank you so much, Caroline, and thank you so much to the committee and to Commissioner Pham. As Carolyn said, we have been very grateful for this opportunity and have been really excited by the work that we're seeing from the member firms and from the subcommittees.

Starting first with the way that we've broken up the work, there is a lot of precedent already when we look across what other geographies are thinking about and doing in terms of digital assets. And most of the work that we have seen thus far has focused on these tokenized asset markets, so we really wanted to think about that as one set of recommendations across the whole lifecycle of what would be involved. Taxonomy is a critical part of that because many times these are new assets, and the definitions are still becoming clear and becoming standardized.

We were very fortunate in this work to have Allison Parent and the GFMA as the leader of this workstream. They had done a tremendous amount of work to get us going, and what we were able to really use their foundational work to establish is that, you know, that as the other workstreams start to clarify each of their deliverables, that work needs to feed back into the nomenclature. So rather than coming out with just a base set of definitions, we feel like this is going to be an evolving part of the work and that it will help to bring all of the workstreams together. So many ways, we thought taxonomy would be a limited scope, but as the work began, it became clear that it's going to be something that has to tie the workstreams together, as Caroline said.

Similarly, with the Infrastructure Workstream, that they have to make sure that all of the different use cases and recommendations that we're likely to come forward with are well defined and well represented by the technology. So we will be having iterative deliverables coming from the Taxonomy Workstream, starting with the foundational definitions of digital assets and the types of digital assets, and then we will continue to expand that taxonomy and nomenclature from there.

For the pre-trade execution and post-trade, we really want to look to the precedents that have already been established in asset markets. Just because these assets are now tokenized and running on new rails does not mean that, necessarily, there is going to need to be a completely re-envisioned set of regulatory suggestions. Instead, what we are trying to do is understand where there might be some differential in the use cases that might result from the novel abilities of the technology, where there might be opportunities to improve current practices, or opportunities to define a new sort of controls that might be required because of the capabilities of the technology. So that workstream is not looking to reinvent the wheel. We're really trying to focus in on where does the technology itself or the nature of having tokenized the assets create potentially new areas of utilization or new interactions that we need to consider.

For the governance risk and controls framework, this is a very interesting one because there's the traditional governance of centrally-issued assets, but increasingly, many of these are now running on protocols that are decentralized and are being run either by foundations or by DAOs, decentralized autonomous organizations. So what we are looking to do in the governance risk and controls framework is really reconcile how do decentralized and centralized entities work together in a regulatory framework, and how do you create that accountability and responsibility that would give confidence to the consumer protections that we need to make these functioning marketplaces. So that's the Tokenized Asset Markets Workstream. This is all pretty much about just the differential from the status quo, enabled by the new format for the assets or by the new technologies.

When you get into the NFTs Utility Tokens

Workstream, this is really breaking new ground. These are completely new types of assets that have not been used before in the financial system in the way that they're being used at present, so this workstream has a lot of unpacking to do to really even just define the various categories of these assets, right? So, you know, what we are trying to get to is some discrete definitions because oftentimes, this term, "utility token" or "non-fungible token," can encompass several different business models. So we're trying to clarify and come up with a more precise language. Again, this is why we need to feed these findings back into the nomenclature.

So what the group is doing is they are going broadly and talking to the entire ecosystem of people that support this. They're getting many points of view brought into this. This is one of the areas that is most exciting because, really, no other regulators have really delved too deeply into this space because it is so unclear because it's so new. So this is some groundbreaking work that the team is doing, and they're going to be putting together recommendations even in terms of decentralized finance, where really is completely new models being explored. This is where innovation is really taking the potential -- the new technology and the ability to have the transparency of the blockchain, and creating new types of financial practices that really are quite novel.

So we're primed to extend that thinking not just to the tokens themselves, the utility tokens or the NFTs, but to the new business practices that they enable to be able to make recommendations. So it's complicated, but this workstream has been extremely active and diligent in trying to pull this apart and turn this into a very digestible set of understandings so that we can make clear recommendations around them.

And then the Infrastructure Workstream really needs to think about, you know, we know these tokenized asset market use cases today, we know these utility and NFT use cases today, but the technology enables some core capabilities that may allow continued new use cases to emerge. So one of the things we're really thinking about is how do you think about smart contracts now as a new piece of financial infrastructure, digital wallets as a new piece of financial infrastructure. You know, what might this mean as we continue to see this infrastructure build out? So I think that these are all areas that the Infrastructure Team is thinking about, and they're trying to put together a flexible set of recommendations that can accommodate use cases that may not yet be obvious but that seem likely to emerge because of the ongoing potential.

A simple example here is, you know, this idea that you can continue to track ownership through multiple iterations of a product, and you see some NFTs already experimenting about providing ongoing royalties to the original creator of an asset. That's something that we really haven't had the ability to do in the same way. So these are the types of questions that they're trying to narrow down to where we need regulatory guidance and get some principles out that can accommodate where the market is today and where we see it already likely to move. New things, like zero-knowledge proofs, optimism rollups, these are all new capabilities that are part of the infrastructure that are being developed as we speak, so, you know, really understanding what the underlying intent is and how to create a framework to know how to regulate these new technologies as they emerge.

So that's really a lot of the work that's been accomplished so far. When you think about it, these are such new areas that, you know, we really have needed to spend the time level setting as a workstream to be able to understand the work not only going on within each work group but across them as well. So that's, I think, a good update from Caroline and I. We're happy to take any questions.

MS. HONG: Caroline and Sandy, thank you so much for the update and also for your leadership with the subcommittee across quite a broad range of issues and topics. I'd like to open it up to the broader committee for any questions or comments at this point.

(No response.)

FEMALE SPEAKER: None.

MS. HONG: Seeing none, I'd like to thank all of our GMAC and subcommittee members for your tremendous efforts, your insights, and your expertise. We very much appreciate all of the time and energy that's going into these recommendations and these presentations, and we certainly look forward to working with the Commission on all of the recommendations that were passed today by this committee. And with that, we will conclude with closing remarks from Commissioner Pham.

COMMISSIONER PHAM: As you all know, in order to deliver results, planning and execution is key. I think the GMAC and today's meeting exemplifies this truth. I had a vision, but you have all really brought it to life. Thank you all for an incredibly productive and efficient meeting that gets to the heart of the markets that the CFTC oversees. I think one of the most impressive things about today's meeting is the true breadth of members from each aspect of the markets and that are each, in and of themselves, market and sector leaders. I applaud each of these practical solutions that are based on data and observations from the markets.

I came here to do a job: to bring people together to take a pragmatic approach to making our markets better. Now thank you all for contributing your time and resources to help the Commission do its job to make sure that our markets are strong, resilient, and well-functioning with the eight recommendations made today that traverse so many aspects of global markets. I want you all to truly appreciate what we accomplished today and just how big a deal it is. The CFTC does not have the expertise and resources that all your firms bring to the table, and advisory committees like these enable the government to better serve the public.

Thank you to Amy, Darcy, the entire GMAC leadership team, all the GMAC and subcommittee members, Brigitte, and all the CFTC staff.

MS. WEYLS: If there are no additional comments, the meeting is adjourned.

(Whereupon, at 11:36 a.m., the meeting was adjourned.)