COMMODITY FUTURES TRADING COMMISSION

GLOBAL MARKETS ADVISORY COMMITTEE (GMAC)

10:10 a.m. to 3:00 p.m. EST

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Three Lafayette Centre

1155 21st Street Northwest

Washington, D.C. 20581

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P R O C E E D I N G S

MR. JUNG: So, first of all, once again good morning, and welcome to the first GMAC meeting of 2024. Before we begin, for the record, we have 30 of 38 GMAC members in attendance. Therefore, as a GMAC designated federal officer, it is my pleasure to call this meeting to order since we have a quorum.

Separately, after each of the subcommittee recommendation presentations, we will hold a voice vote. I will ask members to raise your hands for either a yes, no, or abstain. But I'll reiterate sort of the procedures once we get to that stage.

For those who are virtual, please press the raise-hand button on Zoom to cast your vote, and then leave your hand raised for the respective vote, and then unclick the hand-raise button. Once the vote count gets tallied, I'll reiterate this once we get to that stage.

So before we begin this morning's discussion, I would like to turn to Commissioner Caroline D. Pham, the GMAC sponsor for the welcome and opening remarks. Commissioner Goldsmith Romero will then give live virtual opening remarks, followed by prerecorded opening remarks from Commissioner Mersinger.

The floor is yours, Commissioner Pham.

COMMISSIONER PHAM: Well, thank you all so much for being here. Good morning, and thank you to everyone who's joined this meeting both in person here in Washington, D.C., and virtually. I want to particularly thank the CFTC's Global Markets Advisory Committee leadership team -- Amy Hong, Darcy Bradbury, Brad Tully, Michael Winnike, Allison Lurton, Tara Kruse, Caroline Butler, and Sandy Kaul -- for your continued hard work and commitment to tackling some of the biggest challenges facing global markets, particularly in light of macroeconomic factors and geopolitical dynamics.

I especially want to recognize the members of the GMAC subcommittees and the workstream leads who contributed their time and resources to developing the recommendations that we will hear today.

I also want to thank my team -- Harry Jung, the GMAC designated federal officer; and Nicholas Elliot, the GMAC alternate designated federal officer; as well as Meghan Tente and Taylor Foy -- for their tireless efforts and dedication to excellence. And, as always, many thanks to all of the CFTC staff for hosting and supporting the GMAC's meeting today.

Looking back, it was just over a year ago that we kicked off the newly reconstituted GMAC. At that time, I noted that it was the 50th anniversary of the Federal Advisory Committee Act, which is the genesis of the GMAC and the hundreds of other advisory committees sponsored by government agencies. This year, I want to note that it's actually the 50th anniversary of the CFTC's creation through the enactment of the CFTC Act of 1974. I hope that we will be able to celebrate our proud history and to recognize the many efforts of all the CFTC staff over the years who have tirelessly upheld our agency's mission.

I also want to note that last year at the chairman's awards, we recognized 45 years of service. It's amazing to think about the continuity and the institutional knowledge that we have here at this agency, and I think that's one of the reasons why we at the CFTC try to endeavor and be a good steward of our markets, having that historical perspective.

I also want to note that next month is actually my two-year anniversary as a commissioner. And as I was going back and rewatching our confirmation hearing and rereading my testimony, I realized that, more than anything, I wanted to be a commissioner to make a difference in the world and to make our markets better. And through all of your efforts, the GMAC is delivering on what we set out to do, and so thank you for helping me to make a difference in my leadership as a commissioner.

Some of the accomplishments that we have done is we have had a global stocktake of the most significant issues in global markets where each of you sat here in this room and presented your perspectives. It was truly impressive to have such a broad swath of representation from so many different kinds of market participants and market infrastructures, and in particular, to have the perspective of service providers as well.

I believe that when we looked at the recommendations that we set out to do, there was about a dozen over our three GMAC subcommittees -- Global Market Structure, Technical Issues, and Digital Asset Markets -- and it's impressive to me that not only have we already done eight recommendations, but there's another three that we will hear from today.

And when you look at the recommendations that the GMAC has done, they've touched upon ways to improve the liquidity and efficiency of global markets, including U.S. Treasury markets, repo and funding markets, and commodity markets. We've looked at ways to improve the functioning of markets, looking under the hood. And we've looked at ways to further the dialogue especially here in the United States in providing regulatory clarity around digital assets, and in particular, between distinguishing what are financial activities and what are nonfinancial or commercial activities.

So, with all of that, I'm very excited to look forward to today's agenda where we will address a follow-up on our hotly watched Basel III Endgame panel at the last November meeting and the impact on derivatives markets. I'm thrilled to recognize that we will have a keynote from the Financial Stability Board's Secretary General John Schindler on the FSB's priorities for 2024 and the work plan and to look at the recommendations we will have from each of our subcommittees, touching upon Treasury ETFs as eligible initial margin for uncleared swaps, the transition to T+1 security settlement and some of the particular cross-border issues that it raises. And then finally, last but not least, the digital asset taxonomy from the Digital Asset Market Subcommittee.

And with that, I want to thank you all again. I'm looking forward to a tremendous meeting. And I'll turn it over to the GMAC chairs.

MR. JUNG: Thank you, Commissioner Pham. We will now have opening remarks from Commissioner Goldsmith Romero.

COMMISSIONER GOLDSMITH ROMERO: You would have thought after like two years, I would have had that down

Good morning. I'm so pleased to welcome you to the CFTC for the first GMAC meeting of 2024. And I'm very grateful for the service of the members, as well as Commissioner Pham for her leadership of this committee, and the CFTC staff. Commissioner Pham, I appreciate you talking about next month is two years. And I just had a pop-up on my phone of our pictures at confirmation and it said two years ago. And it was just such a great time. And it's been just a great time serving with you and with our fellow commissioners over the last two years.

As I was thinking about the GMAC meeting today, I was thinking that I'm always reminded that commodity derivatives markets are truly global markets, global markets that can have local impacts on end users and consumers. And so just as an example, lately, I've been following how shifting weather patterns in West Africa have driven cocoa futures to record highs. And then chocolate producers like Nestle have reportedly warned about price increases. So even Cookie Monster recently expressed concerns that the size of his favorite product, which includes chocolate as a key input, is shrinking.

So it's important to consumers and end users and everyone else that global commodity derivatives markets function well and are resilient to setbacks. And in many ways, these markets provide opportunities, and that's what I've been focused on, right? They provide opportunities to help manage the one-off global shocks like the pandemic and Russia's war against Ukraine. They provide opportunities to weather stresses from a cyber attack or from climate events. And of course, they provide opportunities for end users to discover prices, manage risk, and plan for future investments. So it matters to end users who are producing food and fuel that these markets are resilient, and it matters as well to regular people who shop at the grocery store and heat their home and drive their car.

So last year, I remember telling you that in order to build resilience, we should expect the unexpected. And by expecting market stresses, the collective, we can plan for it, and we can build in measures to ensure that there is adequate liquidity in times of stress. We can build in measures designed to ensure market stability. And we can build in measures to ensure that commodity prices are not artificially increased, but instead, reflect market fundamentals of supply and demand. And commodity derivatives markets have performed well under remarkably stressful conditions, and I remain very positive about the resilience of these markets. We should always keep our eye on the goal of resilience.

In the last few years, the local impact of geopolitical events in global markets has been made clear. We continue to see ongoing impacts on supply chains, transportation, and other inputs remaining from the pandemic. And while the high volatility and high prices of oil, natural gas, and wheat caused by Russia's war with Ukraine have subsided, the war continues to impact markets. And attacks in the Red Sea have disrupted shipping traffic, including in the crucial Suez Canal channel, which impacts inputs.

Additionally, these markets, as we know, have seen local impact from sustained drought during the hottest year on record, and I've met with several CFTC registrants who've told me how they are evolving to manage the changing economic and physical conditions from severe climate events.

So given the local impact from these global commodity markets, this is the time to plan for future market stresses and build resilience. And market participants can take advantage of this opportunity while markets perform well to review lessons from the past, forecast future stresses, and review access to liquidity, in particular, short-term liquidity.

And the CFTC also has opportunities to review lessons from the past and plan for future market stresses and build resilience. The CFTC has proposed an operational resilience rule for swap dealers and futures commission merchants that would also help plan for the unexpected, including for cyber events or other events that could impact operations.

CFTC surveillance is particularly important when falling prices in our markets have not always translated to falling prices for the consumer. And I previously called on the CFTC to shore up its surveillance practices by conducting deep-dive studies into certain major commodities during periods of high volatility and high prices to ensure they were not driven by manipulation, excess speculation, or other practices.

The CFTC is well-positioned to ensure that the prices consumers pay reflect market supply and demand rather than fraud, manipulation, or excess speculation. So global market participants and the CFTC need to continue to work together to expect the unexpected and plan to keep our markets resilient. That's why I'm grateful for your service on this committee, so thank you.

MR. JUNG: Thank you, Commissioner Goldsmith Romero.

We will now hear pre-recorded opening remarks from Commissioner Mersinger.

COMMISSIONER MERSINGER: Good morning. I'm sorry I'm not able to be with you in person for this Global Markets Advisory Committee meeting, but I did want to record this message so I can thank all the members of the GMAC and its subcommittees for their hard work, especially the eight recommendations that you recently advanced to the Commission.

The CFTC's advisory committees serve an extremely important role in informing and educating the Commission and CFTC staff on the real-world impact of government policies both here in the U.S. and abroad. I can honestly say I always learn so much from attending advisory committee meetings, and the discussions from these meetings help inform my thinking as we deal with various policy considerations.

I know you have an ambitious agenda for today, including several timely and important presentations and the consideration of additional recommendations. I will be watching the recording of this meeting so that I can still benefit, albeit slightly belated, from the expertise and insight you also graciously share. I'm looking forward to hearing the discussion around Treasury market liquidity, listening to the important address by General John Schindler, and learning from the panel presentation regarding Basel III Endgame.

The Energy and Environmental Markets Advisory Committee, or EEMAC, that I sponsor recently held discussions where we heard from multiple stakeholders around the potential negative impacts that some of the Basel III proposals may have on the energy derivatives markets. I'm certain the discussion by the GMAC panel will offer additional perspectives on the potential impact to the broader derivatives markets in the U.S.

With that, I will wrap up my remarks by once again saying thank you for your service on this advisory committee. I know this takes time away from your work and your families, so I want to make sure you know that your input is invaluable.

Additionally, thank you to Commissioner Pham for all of the effort and energy she has put into sponsoring the GMAC. Thank you to Harry Jung and Nick Elliot without whom these meetings would not be possible. And last, but certainly not least, thanks to all the staff here at the CFTC who make all this happen. And a special thanks to our telecom team who made it possible for me to record and share this message with all of you today. I'm very grateful for your expertise and your kind assistance and all things at the agency.

MR. JUNG: Thank you, Commissioner Mersinger, and thank you all for your opening remarks.

Before we begin today on our first segment, there are a couple logistical items that I wanted to mention to the committee members in person and virtual. First, if you would like to be recognized during the discussion phase during today's meetings, please change the position of your place card that's placed on your desk to sit vertically and to raise your hand and I will recognize you and give you the floor.

If you are participating virtually on Zoom and you would like to be recognized during the discussion for a comment or a question or need technical assistance, please message me via the Zoom chat, and we will handle accordingly. And please identify yourself before you speak, and signal when you're done speaking. That'd be very helpful. And please unmute your Zoom video before you speak, and mute both after you speak. And please only turn on your camera when you're engaging in discussion. If you happen to get disconnected from Zoom, feel free to reach out on Zoom chat or close your browser and try the Zoom link again.

And lastly, for those who are using slides today, we will be controlling the slides up here, so please just simply say "next slide," and I will advance the presentation accordingly based on your direction.

And before we begin, we would like to do a readout of the members participating virtually so we have attendance on the record. Perianne Boring, Chamber of Digital Commerce; Isaac Chang, Citadel; Jason Chlipala, Stellar; Gerald Corcoran, R.J. O'Brien; Scott Fitzpatrick, Tradition Group; Steve Kennedy, ISDA; Derek Kleinbauer, Bloomberg; Agnes Koh, SGX Group; M.C. Lader, Uniswap; John Murphy, Commodity Markets Council; Chris Perkins, CoinFund; Thomas Pluta, Tradeweb; Andrew Smith, Virtu Financial; Jason Swankoski, Morgan Stanley; Julie Winkler, CME Group; Thane Twiggs, Cargill; and Kevin Kennedy, Nasdaq.

With that, I'll turn things over to the GMAC chair Amy Hong.

MS. HONG: Great, thank you, Harry. It's a pleasure to be here today with Commissioner Pham, the sponsor of the GMAC; and Commissioner Goldsmith Romero virtually. On behalf of my co-chair Darcy and also the GMAC members, we're all looking forward to today's agenda.

I'd also like to thank our GMAC members and presenters for their time and welcome all members to share your perspectives during our open discussion.

With that, we will begin the day by welcoming the Financial Stability Board (FSB) Secretary General John Schindler, who will provide a keynote address on the FSB's 2024 priorities.

MR. SCHINDLER: Thank you very much. Thank you for the invitation to be here. I'm very happy that the timing worked out that I could be here in person as opposed to trying to do this remotely. We're always happy to advertise our work, so I'll do the advertising, and then you tell me what you'd like to hear some more about. Hopefully, there will be some interesting questions here.

The way this is structured is I have a few introductory slides. Just in case you're not completely understanding what the FSB is and how we work, I think there's a few misconceptions that I'd like to clear up in that introductory remarks. I'll talk a little bit about current risks because it is part of our work program is to always monitor risk, so I want to tell you what we're seeing and how we're looking at those. And then I'll talk about some of the longer-term risks, some of the structural things that we're looking at that are part of a work program that's three, four, five years long.

Can I have the next slide, please?

So I promise that I'm not going to read all the words on all the slides, but this is one slide where I would like to take a little bit of time and just read what's there. This comes from our charter. So this was in 2009. The G20 leaders got together and created us out of the Financial Stability Forum. And if you look at the first sentence of our charter, "The FSB is established to coordinate at the international level the work of the national financial authorities and international standard-setting bodies" in order to do a few things.

The words financial stability don't actually show up there, okay? You have to read the second sentence where after talking about coordination, it says, "In addition to this collaboration, the FSB will address vulnerabilities affecting the financial systems in the interest of global financial stability." So why do I start with that? Because I'm about to talk about my work program, and at some point, you're going to look at something you're going to say, like, that's not related to financial stability. I don't quite understand why that's on the FSB's work program. I get those questions a lot. We had a work program in correspondent banking for a number of years, and people used to say, well, why is that on your work program? It's because the G20 wanted an organization that could coordinate across the standard-setting bodies, so when something falls between the cracks, somebody is still going to work on it. So that's a big part of what we do. That said, we are the Financial Stability Board, so there is usually a link to financial stability in just about everything we do.

Could I have the next slide, please?

The FSB's membership, if you look here, we are a G20 organization, but we have 24 jurisdictions represented, so we're a G20-plus organization. You've got some international financial centers, Hong Kong for example, Singapore for example. But we have ministries of finance, we have central banks, we have supervisory and regulatory authorities, including market regulators. And I think that is what makes us a little bit different from the other standard-setting bodies because we have the politicians or the politicians representatives there for the finance ministries. And so when we do something, you can understand that at the end of it, it's got political backing. We bring it to the G20. The G20 leaders endorse or recommend most of our work. There's other people there as well, all the standard-setting bodies, the major standard-setting bodies there, the international and regional bodies like the BIS, et cetera, are there.

When people ask me what is the strength of the FSB, my first answer is always the membership.

There's no body that has this type of membership. It's either specific to, you know, banking regulators, or it's just central banks, and they don't have the political backing. This is our strength.

If I could have the next slide, please.

So what do we do? And this is my last introductory slide. There's three basic functions that we perform, and we can get into the details on how we come up with a list of 35 functions. But we identify systemic risk. What are the risks in the financial system? Then we develop policies, hopefully, to mitigate those risks. And then we follow up to see whether those policies are being implemented and whether they're having the effects that they're supposed to have.

And at the bottom, you see a little of a diagram here. The first group, we have a standing committee on the assessment of vulnerabilities, which does that vulnerabilities assessment. That's currently chaired by Nellie Liang. She's the under secretary for Domestic Finance here at the U.S.

Treasury Department.

The policymaking is done by the Supervisory and Regulatory Coordination Standing Committee, which is chaired by Andrew Bailey, the governor of the Bank of England. And then this work on implementation is done by a standing committee that we call the Standing Committee on Standards Implementation, or SCSI. It's currently chaired by Ryozo Himino. He's the deputy governor at the Bank of Japan.

And it's shown here linearly. And that is true this is how the work should flow through, but I prefer when we talk about it as like a circular thing because at the end of this, it's not like we say, well, here's where we are in implementation, we're done, we're out of here. One of the things that SCSI is supposed to do is to look at whether or not we've achieved the effects that we intended to have. If not, it's supposed to go back, okay? This didn't work the way it was supposed to. We send it back to SCAV. Is the vulnerability still there? The worst case is when something hasn't been implemented. We put out a recommendation. Five years later, we're like, look, the implementation is not there. What's going on? Did something change and this risk no longer is there so you didn't have to implement the recommendations? Or did you just not get around to it? You didn't have the support that you needed. So there's supposed to be this nice cycle to this work.

If I can have the next slide, please.

So a big part of our work is looking at what's going on at any given time and identifying the risks there. We would call these cyclical vulnerabilities, cyclical risks. We also do a lot of work on structural vulnerabilities. But I wanted to start here.

Can I have the next slide, please?

So I think it's almost a given that anybody who looks at financial stability, they're always going to talk about the tail risk. They always look for the negative. But I think right now, I think it's easy to say that is a challenging outlook for financial stability. If you look at the line in the top path, it's basically just an indication of tightening, how tight market conditions are. And if you look over the last two years, you see a significant tightening from a low in 2020 to a relatively high position in the current conditions.

And if you look at the line below it, this is supposed to show credit growth. And you see this tightening has had a very material effect on credit. You saw credit fall from a double-digit rate of increase to a lower-than-normal rate of increase, so we know that this tightening is having an effect. And if you look at that decline in credit growth, that is actually the second largest decline in credit growth we've had. The only one larger in the past three decades is the global financial crisis. So anytime you're making comparisons to the global financial crisis, that should make you a little bit uneasy, okay?

Can I have the next slide, please?

This slide shows another way of looking at the same thing. On the left, again, I'm showing global financing costs, and you can see that big increase and how much financing costs overall. On the right-hand side, we have some measures of debt, and this is looking at FSB member jurisdictions, so how much debt do you have? And when you have the cost rising as much as we've seen, a very significant increase, and you see the debt rising both in absolute terms and in relative terms, if you look at it as a share of GDP, it's still up modestly, maybe a little bit, perhaps. But when you have debt being more expensive and people taking on more debt, that doesn't tend to end well, you know? At some point, that debt has to be repaid, and you're repaying it at higher and higher rates. So that makes things a little bit nerve-wracking for people in the business of looking at financial stability risk.

Can I have the next slide, please?

There's pressure building in some sectors. And I'm not going to talk about all of these. You can look at some of our press releases, some of our documents to learn more. Commercial real estate is one of those sectors. This is a sector that is sensitive to interest rates. And obviously, we've seen this tightening, so that makes it a time when we should be looking at it. But there's also structural shifts going on, the move to work from home, the move to more online shopping, and you can see it in the prices of some of these real estate measures. This is a sector that's been hit.

The thing that I want to highlight is more that right panel, which shows who is providing the lending to this sector. I think when I talk to most people, they think, wow, banks are really going to take a hit if this goes bad. But if you look at that -- and not to say that banks are perfect, but about half of the credit extended to this sector is from the non-bank sector, and I think a lot of people don't recognize that. So this sector has grown over time. The non-bank sector has grown over time, and they're providing a lot of credit, so maybe this will play out differently than it has in the past.

Can I have the next slide, please?

So we're about a year -- almost exactly a year removed from the events of March 2023, the banking turmoil. I've included it in this cyclical vulnerabilities discussion because I think interest rate risk, the tightening of financial conditions that I talked about was one of the precipitating factors, at least for Silicon Valley Bank. Anytime something like March 2020 happens, the turmoil that we experience, we tend to look back at that event to try to learn from it because, usually, you see things that you haven't seen before, either because the recommendations have shifted the way the market functions, or there was just something you didn't know about. So we spent a lot of time looking at this.

We're not alone. The Basel Committee has been looking at this as well. So in terms of international banking standards, they've issued a report on this, and they're doing some further work on it. We had issued a statement saying we might look at the macroprudential elements related to any micropludential work that they've done. At this point, I don't think there's gaps there that we need to fill.

The international resolution framework, particularly if you looked -- the way the banks were resolved in the United States, the way Credit Suisse was resolved, different situations. The Financial Stability Board is the international standard-setter for resolution. This is true for banks, insurance companies, financial market infrastructures. So obviously, when you have resolution, including the first G-SIB to fail since the global financial crisis, the first test of the framework that we put in place about a decade ago, we wanted to take a careful look at that. And you can see we published a report on that in October of last year. And in another slide I'll talk a little bit more about some of the findings there.

But also in terms of lessons learned, interest rate risk played a key role. That was linked to liquidity risk at some of those banks, so we wanted to look at how has that nexus changed over time?

Is there also a concern about the non-bank sector? I highlighted to you the CRE, a lot of the non-banks there. Could we see similar dynamics there? So we're doing more in-depth work on that.

I think the speed of the deposit runs was quite startling. And I think you've probably seen pictures in the paper showing how this compared to past deposit runs. People had questions about what is the role of technology? What's the role of social media here? So we're doing work on this as well. So all of this came out of our study of the events of last March. It's hard to believe it's only a year removed from that.

Can I have the next slide, please?

I said I would talk a little bit about the work on resolution. We wrote that report in October, and it laid out some possible future work. You can see sort of the four big areas, public-sector backstop funding mechanisms. This was a key component of Credit Suisse. The operationalization of bail-in, this was the first time bail-in debt had to be used. You know, what did we learn from that? Are there things that we could do to make the system run more smoothly? Resolution strategies and tools, if you take a look at the Credit Suisse situation, there was a resolution framework in place. They decided to opt for a different option. It worked out. This is good. We should be looking at multiple options for banks or other institutions if they have to go into resolution. And then the impact of social media and digital innovation.

Because I won't talk about it elsewhere, I'm going to talk about two other resolution things not related to that event. We're doing work on CCP resolution, which our hosts here are very actively involved with. That will come out actually very soon, so take a look for that. We're also doing work on insurance resolution. We published a list of insurers that are subject to resolution planning standards, and this year, we're supposed to put out our first list.

Can I have the next slide, please?

And I'm going to skip this one and go to the next one.

So I want to talk about these big-picture, longer-term things. This is actually where we get most of our attention, most of our questions about what we're doing. It's four big areas. There's actually a few others that we could probably list, but these are the four that I'll talk about. The first is NBFI, or non-bank financial intermediation, which is just what we used to call shadow banking, but we've now given it a more sophisticated term, very important part of our work program based on what happened a few years ago.

We have also a financial risks from climate change. I don't say financial stability risk because, again, this is one of those areas where coordination is important. We've been asked to coordinate a G20 roadmap on this work. Crypto assets, and I would describe it a little bit more broadly, crypto assets, the activities and global stable coins all fall within this area. This is an area of very active work, and I'll spend a little bit of time talking about that.

And then cross-border payments, which is actually one of our priority areas, which is something that I think a lot of people don't know that we're working on, but just in terms of sheer manpower, it's taking up a lot of time and having really tangible effects already, which is great to see.

Can I have the next slide, please?

Let me start by talking a little bit about NBFI. And I should say that I know my staff sent new slides, so this is a voyage of discovery for both you and I at the same time. I see they threw back in the footnotes that I cut out because I said they were just too small to read, but they're there for the record. The slide was a little bit bigger, okay? But you don't need to see much other than what I wanted to show here is that NBFI has grown over time, both in absolute levels and as a share of total financial activity. If you look at that chart on the left, you can see that about 10 years ago, it was 42 percent of all activity. Now, it's closer to 50 percent of all activity, okay? So there's been this big shift. That's what you need to take from this slide.

Can I have the next slide, please?

So what is our work program here? Some very basic statements, just like I believe we have enhanced the resilience of the banking sector, our overarching goal is to enhance the resilience of the non-bank sector. This is a critical sector. We can't talk about half the global financial activity and say like, well, we took care of the banks, let's ignore the rest. We can't do that. This is critical. It provides an incredible amount of benefits. Obviously, you have a commission here that probably agrees very strongly with that statement. Please, I hope you do.

During the turmoil around the COVID pandemic in March 2020, March is becoming a bad month for financial analysis for whatever reason. Let's hope we make it through this month okay. We learned a lot of lessons, whereas in past periods where a shock hits, we often saw the need to, you know, lend to banks, lender of last resort. There are a number of facilities set up in the United States and around the world to lend to non-bank actors. We want to take that away. We want to take the need to do that away, I should say.

So we needed to put together a comprehensive work program. There's two basic elements of this. One is just improving our understanding and strengthening how we monitor risks in this area. It used to be called shadow banking for a reason. We don't have as much data. We don't have as much visibility into this sector, so this makes it a little bit more difficult. And then where possible to put in place policies to address systemic risks.

Can I have the next slide, please?

This is an attempt to try to summarize some of the things that we're doing here in one slide. A key theme of the work over the past year and into this year is the liquidity mismatch. So if you think of a market for liquidity, you know, in general, in good times, there's a market out there, a market price is set, and liquidity remains in balance. So you have supply and demand in close proximity to each other. But what we've seen in periods of turmoil is that the demand for liquidity spikes, people pull back, they don't want to lend, so you could say that, you know, well, it's still working, the price of liquidity is just really high. But in fact, some markets just stop functioning. We just can't get things to work the way they're supposed to.

Now, what are the factors behind this? Well, on the left, there's a lot of sources for this demand in liquidity during times of shocks or turmoil. On the top there, you see things like liquidity mismatch. I have promised to provide you liquidity for your assets that you had with me, and the assets that I have here don't match that, so all of a sudden I've got to sell. It could be margin calls. You hold assets. You have some sort of derivatives contract and somebody calls you up and say, yeah, prices have moved against you. I need X billion dollars. It could be currency mismatch, lending in one, borrowing in another. It just doesn't work out. And it's all made worse when there's leverage behind it. That's why I have that big weight there. All of these things contribute to a cycle sometimes where something happens, and all the sudden, the market for liquidity just isn't functioning.

That's not to say demand is the only side. You can see on the other side of this dealer constraints. Dealers have told us, well, the regs that were put in place X years ago make it more difficult for us to provide at that point in time, or people have talked about structural issues. We're about to issue some work on short-term funding markets. People have pointed there and said, just the way that market funds, it just doesn't work in times of stress.

What I can say is that we have done work on every one of the pieces that you see here, some of them active, some of them already done, okay? I hope I was able to explain that with that cute little chart. We've tried to make it prettier over time.

Can I have the next slide, please? Thank you.

So what are we doing? Last year, we put out a piece on the financial stability risks from leverage in the non-bank sector. This year, our members have asked us to turn that into recommendations. What is it that we can do? Is it just data? Is it just that we don't know where this is? Or are there other policy recommendations that are necessary? This will get a lot of attention. It's already gotten a lot of attention. We hope to have a draft of this out late this year, early next year, hopefully finalizing it.

A lot of people know that we put out recommendations on money funds a few years ago. And we just recently put out a review of the implementation of those money funds I think it was last week. I'm a little jetlagged, so maybe I'm off by a week here or there. And I mentioned this work on the structural factors in the short-term funding market. That work is going to come out very shortly.

I think a lot of you know that we put out recommendations on open-ended funds last year, along with guidance from IOSCO, so we coordinated that work. We're doing work now on the data that's necessary to put that into actual practice. I think a lot of people know that the bucketing approach that we recommended, there were some concerns about, well, how do we do this? How do we even measure this? We're doing work to actively try to help the industry, to help the industry and others in doing things like that.

And then the margin calls, we're about to put out some recommendations on the liquidity preparedness of the market participants for these margin calls. And we'll put that out for consultation soon.

Can I have the next slide, please?

Climate was the second area that I wanted to mention. We were asked by the G20 a few years ago to put out a roadmap for how we're going to coordinate across a number of standard-setting bodies to deal with and understand all the financial-related risks related to climate change. There's four pillars of this, and you can see them in these dark bars, disclosures, data and vulnerability -- and I would clump them together -- and supervisory and regulatory approaches to this.

On disclosures, I think this past year when the ISSB put out its global framework for disclosures, that was a big turning point. The TCFD, which the FSB had sponsored, had been doing this on a voluntary basis. Now, this is in a more formal footing.

Data and vulnerabilities I linked together. You know, we are asked to do a lot of vulnerabilities analysis. What will happen to financial stability if X, Y, or Z happens? And what our members have said is, you know, boy, if we could measure this or that, that would be great, but the data just don't exist. So in order for us to do vulnerabilities work, we need data, so these two groups are tightly connected. We put out a report last year. We'll put out another report this year on the continuing analytical work. And I think this is a long-term project. I think we're all at the early stages of understanding this.

The supervisory and regulatory approaches, this is, as you might expect, what can supervisors do to better get a handle on this? There's some interesting work there this year on transition plans. This has a very specific question that's being asked is. Is there information in transition plans that would help us understand the potential future financial stability risks, okay? If there is, you know, how can we improve transition plans to help financial stability authorities better use them?

We were also asked to do work this year for the first time on nature-related financial risks by the G20. So the Brazilians are the presidents of the G20 this year. They said can you do a stocktake of the supervisory and regulatory practices that are already in place at your membership to look at nature-related financial risks? So it's the first time we've sort of dipped our toes in that water.

Could I have the next slide, please?

Turning to crypto, if you had asked a few years ago, what is needed for crypto, I think the financial authorities would have said, well, we need minimum standards that are agreed upon internationally, okay? We believe that the recommendations we made last year and the guidance that the standard-setting bodies had put out based on those recommendations puts in place this international framework.

Next, you need consistent implementation of this globally. I can give you all the words and all the recommendations. If you don't implement it, it doesn't matter. And we've seen with past issues in the crypto asset market that there can be one country that holds out and says we will be the safe harbor here, whether that's the Bahamas, the British Virgin Islands, or somebody else. If you don't have the global implementation, you don't have that sort of resilient financial system that we're looking for.

And then the last thing is, this is an area that is moving rapidly. This is not -- I hate when people say it's evolving. The crypto asset market is not evolving. It's just every day, there's something new. We need to constantly talk about this and keep up to speed on what's going on because there's just so much change.

So, like I said, I think we've gotten to the point we're on number two, but if you look at cloverleaf on the right, we work together with other standard-setting bodies and with the IMF to put together a framework for this because it's not just about financial stability. We're working on the upper left corner there. FATF and others are working in the upper right corner on the market integrity. The IMF is working in that lower right. The microprudential, all the standard-setting bodies are working there. We hope that we've got this covered. You know, we're relying on you to tell us like, hey, here's the gap. Hey, look, what we just heard. Look at what we've been asked to fund.

Can I have the next slide, please?

This year, it's all about implementation. We put out these recommendations, and anything you can do to help us on implementation, if you have international organizations, international meetings where we could go and talk about this, we are doing this with our own meetings, with our own membership. We have regional consultative groups that bring our membership to roughly three times the size of what it would be otherwise. This is just really important for us. We need to get this global implementation.

Can I have the next slide, please?

The last of these four big areas that we're working on is on cross-border payments. A few years ago, our members came together and said, you know, one of the reasons that crypto assets developed is that, you know, the cross-border payments, it's an older system. It doesn't work as well as it should. There are a lot of other reasons for crypto assets as well, but this was one thing that they raised. The speed is slow, The costs can be high. I've lived in Europe on two separate occasions now. It used to cost me 50 bucks to send money. Now it costs me like 45 cents, so we've made some progress. It used to take me three days to send money. Now, it takes me about from 4:00 p.m. close of business Swiss time to 9:00 a.m. U.S. time. That's great. Thank you for all the work you guys have done to make that possible.

There's limited access. Some people can't even access this system. And then there's limited transparency, and I have a slide on that. If I have time, I'll show you that.

The FSB membership came together and said, you know, you've got to work on this and make this a more efficient system. So again, there's a roadmap. I feel like we're an atlas now because we have all these roadmaps, and collecting them together is what the FSB is, so we're really just a big atlas. We're trying to work with the standard-setters. We have a lot of public and private sector partnerships to make this happen.

Can I have the next slide?

I think I mentioned at the beginning that this is one of the areas where there's very concrete and tangible progress. I don't expect you to read everything on this slide. You have it for your reference. The key I wanted you to take away from this is that we have set specific targets for how fast, how much it should cost. We've set them for wholesale, for retail, for remittances, so we're trying to be as comprehensive as possible. We report on our progress on these quantitative targets on an annual basis. You know, we only put out our first report last year, but even there, we've seen some huge progress from what we had thought the situation was.

And I will give one anecdote here. I only have a few slides left, so I hope I'm on time there. I mentioned that we have these regional consultative groups, and we did a meeting in South America recently where we talked about the progress. A lot of engagement amongst our memberships there because, especially once you get into emerging market and developing economies, this is a big issue. And people were very passionate in the opinions that they expressed. And then as we went to a break, somebody came aside and grabbed me by the arm, I was startled, and he was like, you don't understand how important this is for my jurisdiction because every penny you save is a penny going into the poorest person's pocket.

And, you know, I think about it from a financial stability and an efficiency perspective. But when he put it that way, it's like, wow, you know, the cost savings has a very tangible effect, even on the poorest. And just the way he was so passionate about it, really, at the time I got a little bit emotional. I said, wow, you know, we're doing our best. We're going to work hard. But this is one of the things where we've already seen tangible effects, and it's very good to see.

Can I have the next slide, please?

Again, there's a lot of information here. I don't expect -- it would take me 10 minutes to explain everything. This is in our annual report on the quantitative targets. But I want to make one point here. This shows sort of, you know, are we making progress in the speed of the transactions and the transparency. The only thing I want you to look at is those dots, okay? Because it's good when we see the blue and the red occupying most of this area. So if you look at the North American, which is a little bit right of center, see, wow, there's a lot of blue, that's great. But if you look at those dots for business to business, and -- I can't read it from here -- business to personal, you see those dots are really low. And that's the percentage of transactions that we actually have information on. So for the very small sliver that we see, we're doing great, but we only see less than 10 percent of the transactions, so we have a long way to go here.

That's my reminder I've got to wrap up pretty soon.

So I just want you to see this. You can look at this. I'm happy to talk about this in great detail. There's a huge amount of work that can be done here. And it would increase the efficiency, and it would affect people's lives in a very real way.

Can I have the next slide, please?

There's other work that we're doing that I haven't talked about. We continue to evaluate the effects of the reforms that we do. The G20 has asked us to look at securitization and how the G20 reforms there have had effects. I mentioned the resolvability of central counterparties. We have a work group on cyber and operational resilience. I haven't mentioned it here, but I'm happy to talk about it. It is a priority, but I had to pick and choose what I could talk about today. We continue to work on enhanced auditing standards and accounting standards. We monitor the implementation of the reforms. We report annually on the list of G-SIBs.

And the last slide if it could have it? Or the next slide, sorry.

Last slide I will talk about, we have 60 to 70 projects ongoing this year. We have a public work plan that's available on our website. You're welcome to take a look at that. It has a whole list of what we're working on. This is what we will deliver for the rest of the year to the G20, so at the request of the G20 presidency. So these get a little bit more attention. We delivered to them earlier this year, the open-ended fund recommendations that I mentioned earlier. So for the year as a whole, we will have 12 deliverables. And you can see a wide variety of the topics that I've mentioned represented in what we're bringing to the G20.

And I'll stop there, and I'm happy to take any questions that you have.

MS. HONG: Great. Thank you Secretary General Schindler. I found your framing of the cyclical and structural vulnerabilities to be quite informative and further enhanced by the graphics in your presentation.

At this time, we would like to open the floor to questions and comments from the GMAC members.

MR. VITALE: I had a question. Thank you, very good report. Just back to the NBFI topic, how should we think about how you and your stakeholders -- supervisory and regulatory community -- are thinking about the jurisdiction and implementation of the standards that you want to put in place, given, obviously, that most of these entities aren't necessarily regulated? Is it that you're looking at the conduits, the on-roads and offramps into the banking systems? Is that the right approach? Or how do you tackle that topic?

MR. SCHINDLER: Can I go ahead and answer or are we collecting questions? It's okay? Okay. This is a tricky situation that we often have, okay, particularly with NBFI, I mentioned our membership is our strength. And we do have market regulators on our plenary, on our steering committee, on all of our standing committees. A frequent thing that they will say is, you know, that's great that you want to do this, I don't have the authority to do that. So it makes it tricky what we can recommend. Sometimes we will go ahead and make a recommendation anyway, like, we think this is important. If you don't have the legal authority, we'll make a recommendation that said, you know, the legal authority should be given to them.

This is also where our membership is important because we have the finance ministers there. So, for example, on the NBFI leverage work that we're doing, right, a lot of our securities regulators already said, like, you know, the things that we're talking about, you know, I don't have the authority to do this, but, you know, the G20 presidency has asked us to update them on this work. We will do that in the non-bank -- the first element there, enhancing resilience and NBFI progress report in July. We will let them know the political and legal challenges that we're facing, and then the next G20 presidency can choose to take that up. So having that political impetus there when the world leaders agree and take our recommendations and endorse them, there's an implicit political support for -- and we will do what's necessary.

That does not mean it always happens, right? We had some recommendation on securities financing transactions where we all said we have to share more information on this. We're going to do it.

At this point several years into it, we report on the implementation every year. You can see that there hasn't been a lot of implementation there. So we're in the process of that cycle that I talked about. The committee that looks at that said, hey, there's not a lot of implementation here. Has the risk subsided, or does the risk still exist and we need to refresh the recommendations?

So, boy, this is a tricky thing to do. If you can tell me a way to do it better, let me know. But I do think our membership is a strength here, and it helps us a great deal. But it also means that sometimes we have to be careful about what recommendations we make because we don't want to make recommendations that are impossible.

MS. HONG: Thank you for that question. I think we have a question or comment online as well from Steven Kennedy from ISDA.

MR. KENNEDY: Hi, everyone. Greetings from Singapore. Sorry I can't be there in person, John, great presentation. [inaudible].

MS. HONG: It looks like we're having some technical difficulties at the moment. Steven, we lost your audio. If you could hang tight for just a minute while we figure this out.

MS. HONG: In running an international organization, the technology problems are a constant. As soon as that key committee member wants to make their intervention, they go frozen, like, oh, the whole meeting was staged after that.

MS. HONG: Well, while we're waiting for Steve to come back online, Jackie Mesa from FIA, please.

MS. MESA: Thank you, John. That was a great presentation. I can't wait to get my hands on the slides. I thought that was a fantastic summary of your work. And given your mission after 2019, I think the FSB has really become that coordinator of global standards, impressive body of work. And I think you're tackling the right things.

When I looked at the membership, there are three members on the committee from the U.S. And I understand, you know, nobody has four. It's been a constant issue. Of course, the CFTC, which oversees most of the global clear derivatives markets, uncleared and on exchange trading, so many of the things you're now tackling, including margin and liquidity. Really the key group is CFTC. CCP resolution, most of the major CCPs are here. I know there was some work -- you're doing work on crypto, which most of that in the U.S. will fall here at the CFTC, not the SEC, and then again, on some work on commodity derivatives post the invasion of Ukraine.

So I think of the important work you're doing, and it feels like the CFTC is missing. And I wonder if there's some thought going into how the CFTC can have a seat at the table during those discussions?

MR. SCHINDLER: Yeah. So you're right. We were limited, you know, by our charter of three members per jurisdiction. The U.S. Treasury, the Federal Reserve Board, and the SEC are the U.S. members. That said, all of our committee chairs have the ability to invite on an ad hoc basis relevant authority. So the CFTC is frequently invited. The CFTC is a member of the resolution steering group, so they are on the group that sets the resolution standards. They're not on the plenary that approves them. But, for example, when we meet in a few weeks where we're going to discuss those, they would probably be invited as a relevant party to discuss them.

So we try to bring them in that way. It's not just the CFTC. There are a number of European authorities around the world. You know, there's always somebody who says, well, I should be at that meeting as well. So we try to use the ad hoc process.

Is there a formal procedure for changing this? Yes, we do a membership review periodically. We've done that. Actually, we're in the process of completing that right now for our steering committee and our standing committees. And we haven't reviewed the plenary membership this time. But there is a process. It's that that limit of three that is in our charter. You have to get the G20 to change that before we could formally make a fourth person a member. And not that any other jurisdiction would object, but you might get some people who would object to the United States having four and others not theoretically.

MS. MESA: Yeah, right. Right. And I guess there's never been a thought about a rotation system?

MR. SCHINDLER: We actually do have a rotation system for some of the European authorities when --

MS. MESA: Um-hum.

MR. SCHINDLER: Well, it's a complicated system that when they wanted the -- I think it was the supervisory authority to be on there, we created a rotation. Talk to your U.S. colleagues and get them to agree to that rotation, which is what the Europeans did, and we would do it. But I think you'll find that those seats are in high demand.

MS. MESA: Okay. Thank you.

MS. HONG: I think we're still working through the technical issues and getting our virtual participants back online.

Are there any other questions or comments in the room?

Dave from FIA PTG.

MR. OLSEN: Thanks. Good morning, John, and thanks again for the presentation. I'm Dave Olsen. I'm the president of Jump Trading Group, and on this committee, I represent the FIA PTG.

It was probably not a coincidence that crypto was adjacent to international payments, cross-border payments in your remarks. I'm wondering to what degree the FSB is focused on using some of the digital asset rails as a solution set for cross-border payment frictions and costs. And if you've got line of sight -- you mentioned, and I completely agree, the pace with which change is occurring in the crypto world. I think what's a little less publicized is the degree to which major banks and regulated financial institutions are experimenting with private blockchain networks to effectively step into the role that is traditionally paid by central banks, especially on payments and FX risk transfer using tokenized assets. But are those two elements starting to merge at all the FSB, or are you dealing with them as separate initiatives?

MR. SCHINDLER: We have very different perspectives on them in the sense of the work on crypto assets was, you know, what is the financial stability angle here? Is there a risk here? So those recommendations were designed from that perspective. And other people like the CPMI, for example, worked on some of the other aspects of that. The cross-border payments was a much more practical project. Make this faster, cheaper, more efficient, you know, that sort of thing. So there was a different perspective brought to bear.

That said, on the cross-border payments issue, getting to your, you know, what about the digitalization of this, is that a big part of it, that is a roadmap in which we're coordinating the work of a number of groups. I would say maybe not coordinating the work of CPMI. We're almost like, you know, co-heads of that group because they're so critical to that piece. The Committee on Payments and Market Infrastructure, which -- I don't know if everybody knows all the acronyms that we all speak here.

So a lot of those technical aspects, which payment rails are we going to use, how can we make them more efficient, it's actually under CPMIs remit, whereas we're doing a lot more of the transparency work, the partnership with the private sector.

That said, we talk to a lot of groups on this. And I've had groups that have come in to speak to me who represent various types of crypto firms and, like, we should be a part of your solution for the following reasons. So we talk to all of them. But on the technical solution side, I'd say we're less active than CPMI is. So the answer is sort of like, yes, we're taking it into account. It's not my area of which we're overseeing, but it is there. What the solutions will be, I don't know. I don't know if it's just a speeding up of the traditional rails, or if it is a shift to a blockchain or some other technology we haven't discovered yet.

MR. OLSEN: Thank you.

MS. HONG: Great, thank you.

Chris Childs from DTCC.

MR. CHILDS: Thank you. Thanks, John. Great presentation.

I'm actually going to ask a question that you didn't cover, so I don't know if this is unfair or not. But since the financial crisis, we've been collecting an awful lot of data in the industry around derivatives trading. And that was as a mandate of the G20 in 2009 I think it was. And this year, we're going through a whole cost and implementation of rules to harmonize that data with a view to aggregation.

However, there are certain structural impediments, and it doesn't seem that the infrastructure or the structural things are being reviewed in terms of how actually that data can be shared on a global basis. So I wondered if you had a view on that, and also, whether you think the FSB has a role to play in that.

MR. SCHINDLER: This is actually a topic of very active discussion at the FSB. Some of the things that I mentioned, I mentioned the work on leverage. I mentioned the work that we're doing on open-ended funds and collecting sort of the data for that data pilot project. I mentioned the work on margining. We're about to publish some of our draft recommendations. One of the things that we come across every time, especially in the non-bank sector -- and this would apply to the data that you're collecting -- is that the data exists, but nobody can share it. And maybe the CFTC has it, but they can't share it with FSOC or with the Fed or SEC. You know, who knows? So you have an agency with a specific mandate that may or may not include financial stability that has data that might be relevant to financial stability but can't be shared.

So it's a topic that specifically, as we've gotten more and more into the non-bank space, we've been butting up against. So there's some momentum that we haven't made a decision yet to whether or not we should put together something to discuss data-sharing issues because it has become essentially a financial stability issue, the fact that these data may or may not exist. If they don't exist, then that's a different problem altogether.

But you have the data. You know, I assure you, I would love to see the data. You probably can't share that data with me, but there are people out there who could use it to assess the vulnerabilities. So it is a very hot topic. I don't see a quick solution to this because every jurisdiction you operate in is going to have a different legal framework for dealing with that. It's going to be tricky. But, as I said, our membership, I think, is our strength. If the members agree that this is important, we will find a way to do something.

There's also some work recently on trade repository data and whether or not we can take advantage of it. And they found, you know, varying degrees of success in different jurisdictions. So the fact that they found some use for it by looking at their jurisdiction and the data they had access to, not sharing it with us, but saying, we did this little study and we found this, that's encouraging that people are saying, like, we can use this. Boy, it would be great if we could use it more broadly. So if you can come up with a solution, let me know.

MS. HONG: Great, thank you. Let's go to Adam Farkas from GFMA and the Michael Winnike from BlackRock next.

MR. FARKAS: Thank you. Thank you, Chair.

Thank you, John, for the excellent presentation. I would come back to your comments on structural vulnerabilities and the work you are doing on that one. And I try to paraphrase what you said. You said the banking system has been taken care of, or at least there is a grip on structural vulnerabilities in the banking system. And then you illustrated how the non-bank sector, its role and potential vulnerabilities, structural vulnerabilities, are emerging and are becoming the focus of the work of the FSB.

My question would be how much you are looking at, let's say, the causality between one and the other, i.e., the causality between dealing with the structural vulnerabilities in the banking sector causing the emergence of structural vulnerabilities in the NBFI sector. And if so, how much of that is intentional or unintended?

MR. SCHINDLER: These are all great questions. First, if I said that banks had been taken care of, I was using that in sort of a caricature sense. Like, you know, we're always looking. We looked at the March turmoil of last year and said, like, what can we learn from this? So I think we believe that they are more resilient than they were, so I apologize. My press officer is going to kill me when I get back. Like, why did you say that, you know, if the word slipped out of my mouth that way. But I probably expressed it in those terms.

Is there a causality here? I would say almost certainly, yes. I mean, as I said, you've seen that movement to the non-bank sector, so it makes sense that, you know, if you have made this area more resilient, and you do that by, you know, regulating it, supervising it differently, essentially increasing the costs, but intentionally doing so, so that there's a greater degree of care, there's a natural tendency to move to where the costs are cheaper. So yes, there's a -- yes, in some sense, it was intended, but it was not intended to move it to someplace where it was less regulated. It was intended to make this area stronger. And now we're working to try to make this area stronger.

Now, I think a lot of the things we are encountering were not caused by the shift. It's just that we're now being made aware of them because they're bigger or there's been an increase. I think the private credit is getting a lot of attention now. This was going on before the global financial crisis, but it has grown. So did we cause the non-bank credit and private credit sector to grow? Yes. Did we cause it to have some of the risks that are involved with it? No. It was there before. It's just gotten bigger,

So yes and no. It was intentional, but it also was not intentional. So our intention is to make the entire financial system resilient. Resources are limited. We have to focus where we think the greatest priority is.

MR. WINNIKE: Great. Well, thank you, John, for a wonderful presentation. I think a lot of the subject matter you covered will inspire future work for the Market Structure Subcommittee that we co-chair as part of the GMAC.

One question I had is when you're thinking about both the assessment of the risk in the financial system, as well as methods to address that risk, how you think about the balance between activities-based regulation and regulation of individual market participants, so thinking about, you know, in the U.S., we have, of course, you know, regulation of CTAs, regulation of fund advisors, regulation of open-ended funds, you know, regulation of private funds, sort of different regulations for different types of entities. But then we also have a great deal of activities-based regulations such as mandatory clearing, mandatory margining of uncleared swaps. We have the repo clearing proposal that is now final that is moving forward with implementation by the SEC.

So when we think about this as a subcommittee, how should we think about that balance between what you would take an activities-based approach to versus looking at individual market participants?

MR. SCHINDLER: Yeah, this debate hasn't been going on for a long time, has it? I spent a number of years at the Fed working on FSOC-related issues. There's no fixed rule that this is going to be done via an entity-based approach and this is going to be done via an activity-based approach. I think when you look at NBFI, you know, we use that to lump together a whole bunch of things. And so I don't think we can ever say, well, for NBFI, this is the rule, and therefore, every entity should do it this way. We're really talking about activities there. So I think there's a tendency to think about it from an activity-based approach.

Now, that said, there could be -- you know, we're doing this work on leverage and what are the policy options with respect to leverage for a broad swath of incredibly diverse institutions? Could that result in some entity-based recommendations? It's certainly possible. My suspicion -- and, you know, we haven't even gotten to the part where we're brainstorming the policies yet. We're still in the gathering what people, what authorities they have, that sort of thing. My suspicion is there could be a combination in there. But my suspicion it's going to be heavily leaning towards the activity-based approach just because of what our members now as their own authorities have, which is mostly activity-based measures. Again, I don't know, and there's no fixed rules, but that's just a guess based on what authorities our members already have. So it's sort of like anchoring where they're going to think about how this could be done.

MR. WINNIKE: Thank you.

MR. SCHINDLER: Again, don't know.

MS. HONG: Thank you.

I think we are now all systems go with our virtual attendees. Steve, let's try this one more time.

MR. KENNEDY: Can you hear me?

COMMISSIONER PHAM: Yes.

MS. HONG: Yes, loud and clear.

MR. KENNEDY: That's great. I hope it wasn't the question that I asked.

So, John, thank you for the presentation. The question that I was trying to ask was that one of the workstreams that the FSB has been engaged in that's of great interest to a lot of people in the room is liquidity preparedness for margin and collateral calls. There have been a couple of workshops on it over the past year or so. And I guess I'm just wondering, any initial takeaways from the discussions you've been having amongst policymakers and with market participants? And what's the path forward for that workstream? Will it be a paper or recommendations or --

MR. SCHINDLER: Yeah, I can answer this question in vague terms. We are on the verge of putting out the FSB's recommendations on the liquidity preparedness of market participants for margin and collateral calls, so I have to be vague about what we're going to say because I don't want anybody to walk away thinking I gave you some sort of scoop.

That is part of a bigger work program involving IOSCO, CPMI, CPMI IOSCO, which is another entity all on its own. So this is just one piece of six workstreams. We know for sure that we're going to continue to do work after this on the data. You know, all of these workstreams identify data gaps that need to be filled. As I mentioned, data gaps is a very important topic for us. So we will continue to look at the data gaps. We will release our recommendations -- I'm going to say it's late this month or early next month. I don't remember the date off the top of my head -- for consultation. So there'll be roughly a three-month period for comment. And then we will take those comments on board. All those comments will be posted on our website, and we will make a final set of recommendations, you know, later this year. So that's where we are.

In terms of a specific recommendation, I probably should just shut up right now before I get into trouble.

MS. HONG: Thank you.

MR. KENNEDY: Thank you.

MS. HONG: Are there any other questions or comments?

Commissioner Pham, would you like to make a remark?

COMMISSIONER PHAM: I just want to thank you, John, again, so much for coming from the G20 meetings in Brazil, stopping here in D.C., speaking here, sharing so generously with us this presentation, the time, and the Q&A with the members. It's really very, very gracious of you.

And I think one of the things I just really want to emphasize is that the work of the GMAC very much is focused on the global challenges that are facing global markets. It is aligned to the work program of the FSB, IOSCO, and other international standard-setters. That is part of the mandate of the GMAC. And so we thank you so much for bringing that international perspective.

MR. SCHINDLER: Thank you for having me. And my family lives in D.C., so I'm always looking for an excuse, so, you know, it's easy to come. Thank you so much.

MS. HONG: Wonderful. Thank you very much, Secretary General.

With that, we will move on to the next agenda item. I'll hand it over to my co-chair Darcy Bradbury.

MS. BRADBURY: Thanks. Thank you again.

The next section we're going to be considering the Global Market Structure Subcommittee recommendation and an update on swap block and cap sizes recommendation that was made at a prior meeting. We're going to have about a 20-minute presentation from Michael Winnike, who you are sort of blocked by the camera from seeing, and then we will have time for discussion. We regretted that we didn't have much discussion time at our last meeting, so we tried to build it in this calendar today.

And then we'll take about five minutes to vote in our more streamlined but still new and slightly shaky voting procedure, so we're very optimistic it's going to work better this time. Thank you for your patience, all, from last time.

And then we'll have a 10-minute presentation by Wendy Yun following up on the recommendations that were made last time. So that's our plan for the next few moments.

So let me turn it over to Michael, who's going to present the recommendation from the Market Structure Subcommittee on U.S. Treasury ETFs as eligible initial margin under the uncleared margin rules.

MR. WINNIKE: Great, thank you very much. And before I get started, I just wanted to thank the Commission and Commissioner Pham and staff for bringing us all together, for the opportunity to present this recommendation, and for Commissioner Goldsmith Romero and Mersinger for the remarks today.

I also wanted to thank the Market Structure

Subcommittee for all their work on this recommendation. The 30 members put a lot of input and effort over several months into this recommendation and the presentation that I have the honor to present, but I'm wanting to recognize that it's their hard work and really the work of the collateral capital and clearing workstream that are responsible for a lot of the content I'm presenting today.

So to start, the problem statement that we're looking to address -- and I don't have the slide deck. If we can move to the next slide. Okay, great.

So just to start kind of with a high-level framing of the recommendation and the problem we're looking to address. So fixed income ETFs are becoming an increasingly important part of the overall fixed income ecosystem. And they're a driver of a lot of the modernization of the fixed income markets and provision of liquidity themselves.

However, under the CFTC's implementation of the uncleared margin rules, it's not clear that fixed income ETFs and Treasury ETFs in particular are eligible collateral. And so in the face of this lack of certainty, there's sort of a chilling effect. Market participants have been unwilling to accept or pledge Treasury ETFs as collateral, you know, absent this clarity. And we think that clarifying that fixed income ETFs are in fact eligible collateral would be highly consistent with both the IOSCO principles around what should be eligible margin, as well as with the CFTC's own goals and implementation of the uncleared margin rules in the United States and that this would also benefit market participants, you know, like investors that we represent, as well as markets more broadly.

So I'm going to unpack all of that in this presentation, but I wanted to start first with background on ETFs themselves and the UMR rules, and then we'll get into the discussion of why U.S. Treasury ETFs meet sort of the requirements and the principles of UMR, followed by a discussion of the benefits for market participants in markets.

So if we could move to the next slide.

So I am excited about this recommendation, and there's a lot of enthusiasm in the subcommittee because part of what we're doing here is not just addressing, you know, a narrow question on collateral. You know, we're really here to fulfill part of the GMAC's purpose, which is how can we help the Commission keep pace with market evolution and issue recommendations that allow policy to evolve with the evolution of fixed income markets, and also look towards international alignment and standards.

And so to start, fixed income ETFs, as I mentioned, are playing a really important role in the evolution of fixed income markets themselves. They are creating greater access to fixed income exposures and allowing market participants to get access to fixed income exposures in a highly efficient and diversified manner. There's also not just a benefit in terms of the uptake of fixed income ETFs by, you know, investors looking for exposure, but the way that fixed income ETFs operate and their liquidity that's offered both on exchange and the ability to redeem fixed income ETFs for a basket of underlying securities has actually translated into new trading protocols, particularly in credit markets around portfolio trading and new ways that market participants are transferring risk. So we thought it was important to, you know, take a look at fixed income ETFs and Treasury ETFs and how they fit into existing regulation. And here, we're focusing on the uncleared margin rules.

Now, notwithstanding the important role of Treasury ETFs, it's not, you know, maybe surprising that they weren't directly addressed under the uncleared margin rules themselves. So I apologize that for those in the room. This is very small. But if you look at the top chart, really when the G20 were first gathering to discuss the uncleared margin rules in 2009, that was the early days for fixed income ETFs. They had been -- you know, the initial one was created in -- the first one was launched in 2002, but we really saw more uptake and use later in 2009 post the global financial crisis.

And then, if we look at, you know, the actual dates that UMR was finalized, both the principles by IOSCO in 2013 and then in the U.S. by prudential regulators in 2015 and by the CFTC in 2016, if you look at the chart on the bottom left, you can see that there's been really kind of explosive growth in fixed income ETFs and their utilization, their trading volumes subsequent to the finalization of those rules.

So really, what we're looking to do here is take something that may have been a smaller part of the market, maybe less on top of mind when the rules were initially being formulated, and making sure that that we're now catching up, right, to where markets have gone.

Now, with respect to Treasury ETFs in particular, I think most of us, the market participants in this room, are probably very familiar with a story of fixed income ETFs and maybe more focused on credit ETFs. But since we've moved to a higher interest rate environment, there has really been growth of Treasury ETFs in particular. So if we look back at 2023, Treasury ETFs were actually the fastest-growing fixed income ETF category with 37 percent growth in AUM in 2023 alone. And there's also a significant increase in the total volume of trading Treasury ETFs of 18 percent year over a year, with over 2 trillion in secondary market volumes. This is becoming a much larger market, and that's much more central to fixed income markets themselves.

So if you go to the next page, so when we think about what is eligible margin, right, and what do policymakers intend to fall into scope for eligible margin? So BCBS, IOSCO issued, as I mentioned, back in 2013 guidance on how regulators in different jurisdictions should implement eligible collaterals -- collateral eligibility for the purpose of the uncleared margin rules for bilateral derivatives.

And I think there's just a statement here -- again, I apologize very small on this screen. And a few key points. First of all, in the goal around the scope of eligible margin, I think it's worth highlighting that IOSCO wanted to lean towards a recommendation for broad collateral schedules, that there is a benefit from collateralization in mitigating systemic risk, mitigating counterparty risk, but there is also the creation of liquidity risk that goes along with mandatory margin. And then in fact I think we saw that highlighted in John's remarks regarding issues the FSB themselves are considering. And one of the ways to mitigate that risk is to have broader pools of high-quality eligible collateral to mitigate some of those liquidity risks to market participants.

And in key principle number four, IOSCO kind of outlined, well, what are the types of collateral that should be considered? And there's a few characteristics. The first is that collateral should be highly liquid, which both means that you can liquidate it in a reasonable amount of time, and that in times of market stress, it will hold its values subject to, you know, appropriate haircuts. Collateral should also not be exposed to undue credit market or FX risk or wrong-way risk, so sort of complex risk. And this was sort of not -- and I don't have a particular quote on this, but IOSCO did also state that they're explicitly leaving the scope of eligible collateral up to individual jurisdictions to implement because they wanted to have broad principles that could keep pace with markets, changes in markets, and allow for different implementation in different markets as conditions and markets change.

So if we go to the next slide, so the CFTC in 2016 took these IOSCO principles and then defined a scope of eligible collateral. And as you can see, it is in fact quite, quite broad. It ranges from cash and government debt to corporate credit and even equities with appropriate haircuts to deal with potential market risk related with these forms of collateral.

The CFTC also included securities in the form of redeemable securities in a pooled investment fund. So clearly, the CFTC had considered and approved the use of instruments, you know, such as money market funds that are investing themselves and holding high-quality collateral. And as mentioned, I think the issue that we'll discuss in more detail later on is just a lack of clarity around whether or not the CFTC intended for ETFs to meet this particular category.

I'd also like to highlight here that the U.K. and EU UMR regimes permit ETFs as eligible collateral in those jurisdictions. So in that version of UMR UCITS, which are the primary form that ETFs take in Europe, are explicitly permitted as eligible collateral.

So we go to the next slide.

So U.S. Treasury ETFs meet, I believe, the key principles outlined by IOSCO and also, I believe, the goals and requirements of the CFTC itself and their implementation of the uncleared margin rules. You know, first, they are in fact highly liquid. And U.S. ETFs can be easily liquidated. And there's kind of multiple layers of liquidity that we'll discuss later, both in the secondary markets trading on exchanges themselves, as well as the ability to redeem ETFs for the underlying assets they hold, which would then give one access to primary market liquidity for government debt. They're not subject to complex risk or undue FX risk or market risk. And as noted, you know, I think approving or explicitly acknowledging that U.S. ETFs or U.S. Treasury ETFs are eligible collateral would be consistent with a market-driven approach to determining the correct scope of eligible collateral.

So we go to the next slide.

So not only would approving U.S. Treasury ETFs as eligible collateral be, you know, consistent with the principles of IOSCO, it would also create benefits for the pledgers and receivers of collateral and we think for market stability more generally. The first benefit is around diversification. So as a market participant who's potentially receiving collateral, if you receive a Treasury ETF, you're really receiving risk to a basket of bonds, so you're receiving risk that is diversified over many individual CUSIPs, which means that you're less exposed to the idiosyncratic risk associated with any one CUSIP. And so we can think about the issues that occurred around the government funding crisis, how individual T-bills that were looking to mature around the time where there was a suspected potential government default, those actually traded at a dislocation to other T-bills. That's the type of risk that can come with taking in just a specific CUSIP. Allowing market participants to receive diversified baskets in the form of an ETF mitigate some of that idiosyncratic risk that comes with taking an individual CUSIP.

There's also benefits to liquidity. And so, obviously, this is aligned with the IOSCO principle that we just discussed. But also, of course, to entities that are receiving this form of collateral, it's very easy to liquidate Treasury ETFs, and that's because of the multiple layers of liquidity that that exist for ETFs themselves. ETFs themselves are, of course, exchange-traded, so you can liquidate them by accessing all-to-all markets where the ETF buyers and sellers can meet without necessarily needing to go through the pipes of intermediation and taking up the balance sheet of, you know, the dealer community.

But then there's also the ability if there's any dislocation in the secondary markets to access the liquidity of the primary markets, and that's by using APs. So there are entities that have contractual rights to take baskets of ETF shares or, you know, blocks of ETF shares, submit them to the ETF for redemption in kind and the actual underlying securities, and then market participants could take these underlying securities to the primary markets for, you know, U.S. Treasurys, which themselves are very deep and liquid and liquidate securities that way.

In addition to the liquidity efficiencies, there's also a great deal of operational efficiency. So if you wanted to post a set of diversified bonds and not use an ETF, you'd have to source all those CUSIPs individually, and then you'd actually have to manage that basket. So that's more individual transfers of securities back and forth between market participants. There are also issues related to just managing the cashflows associated with the bonds themselves, as well as the issues related to managing substitutions and maturities, all things that are kind of handled by the ETF wrapper themselves.

So this isn't to say that all market participants should, you know, exclusively be using ETFs, but I think there's a use case here, and it's one that that we actually kind of experienced when we were going through the implementation of UMR ourselves, which is that there are numerous market participants that might be, you know, equity funds that trade derivatives and are subject to the uncleared margin rules and they hold cash as a liquidity buffer but they're unable to post that cash as initial margin. For those types of entities, it might be much easier to go buy a Treasury ETF and post that as collateral instead of having, you know, an equity PM start managing a portfolio of T-bills, right, which does come with risk and requires expertise.

Now, in our firm, we have a big global reach and a lot of expertise, and we're able to find, you know, partnerships with other, you know, portfolio management teams to kind of take on the management maybe of a portfolio of short-dated Treasury bills, but not all market participants have the benefit of our scale and diversification of expertise. And this isn't a real-world example, I think, where giving market participants access to Treasury ETFs could make things less risky and more efficient for them.

Then moving on to market stability, you know, as discussed, right, the scope of eligible collateral and broader eligible collateral schedules does create some protection against the liquidity shocks associated with mandatory posting of margin. And we've also seen that ETFs themselves tend to perform very well during periods of financial stress that, due to the transparent nature of the equity markets on which they trade, the multiple layers of liquidity that in times of stress volumes often go up actually in the trading of ETFs themselves because there is an easier outlet for liquidity.

And we also have seen in markets sort of this virtuous cycle of modernizing the way fixed income liquidity is provisioned where you're able to tie the liquidity of the all-to-all markets back to the liquidity for the underlying bond markets through the create-and-redeem process for ETFs and that this, you know, makes ETFs a very important tool in the toolkit for managing liquidity and managing fixed income exposures and will help continue to modernize the Treasury markets themselves.

So to move on to the next slide for just a couple of examples of how ETFs have performed in specific times of financial stress, the first example here is TLT, which is an ETF that is tracking a basket of roughly 20-year U.S. Treasury bonds and looking at its performance during sort of that March 2020 sell-off period, kind of the COVID, quote/unquote, liquidity prices. And as we can see from the chart on the very bottom left, we compared the bid-ask spread, so the cost of transacting in the ETF, to the cost of transacting in the same basket of Treasury bonds held by the ETF. And as we can see, there's pretty consistent low bid offer spread between the ETF and the Treasury bonds themselves over time, but that when we hit the crisis period in 2020, we saw a real spike, right, in the bid-ask spread for the 20-year Treasurys themselves, and a spike, but a much smaller spike, right, in the bid-offer spread for the ETF itself.

And part of that is going back to the way the Treasury markets operate today where transactions in the underlying bonds themselves generally have to occur between clients and dealers, and that means that when dealers' balance sheets are clogged up, it may be harder or more expensive to transact the underlying bonds and that ETFs, due to the ultimate nature of the equity markets on which they operate and the transparency as we discussed, may be an easier avenue to seek liquidity in times of stress.

And we see in the right-hand chart, too, how the volumes themselves spiked both in Treasury markets, but also really dramatically in the ETF itself during that period of liquidity crisis when market participants were looking for more efficient ways to move risk and duration.

If we move on to the next slide, we're looking now at a different crisis. This is the trading activity around Silicon Valley Bank and using the example of a short-dated, Treasury ETF that really is tracking a basket of bills. And I think it's a similar story here. We can see, again, very consistent liquidity provision in terms of -- as represented by bid-ask spread between the ETF and the underlying basket of bonds. But during the crisis itself when markets became much more expensive relatively to transact and in Treasury markets, the ETF maintained a very low cost from a bid-offer spread perspective.

And just to give another stat, you know, one of the reasons why there's this efficiency to ETFs is that you can have a great deal of transactions, unlike a standard mutual fund, in the ETF itself, where it doesn't lead to the actual basket of bonds being bought and sold in the market. So I think we looked at a couple Treasury ETFs and found that, you know, maybe for every, you know, $3.50 of transactions in the ETF itself between market participants who are looking to move risk, there's only actually about $1 of actual creations or redemptions in the fund, so you're able to move a lot of risk without a lot of actual transactions that might clog up the other balance sheets.

So moving to the next and final slide, so just returning to the recommendation, and there is an actual memo that I believe that all GMAC members received that has more detail about the nature of ETFs, how they operate, kind of the legal analysis around this recommendation.

But I just wanted to touch on one critical component here. So when we think about ETFs being eligible collateral under the existing rule and fitting into the category of being a fund that has redeemable securities, we think that the CFTC issuing this clarification would, you know, not only reflect the realities of how market participants, through authorized participants, are in fact able to redeem securities -- so it is inherent to the ETF structure itself -- but it also would align with an interpretive approach that the SEC took in another context.

Back when the SEC adopted the ETF rule -- this is rule 6011 -- the SEC indicated that they believe that ETF shares are most appropriately classified under the final rule as redeemable securities within the meaning of Section 2(a)(32) of the '40 Act and that ETFs should be regulated as open-ended funds. And so I think that this would -- issuing a clarification that ETFs are eligible collateral on the basis that they have redeemable securities would be highly consistent with the approach that other regulators in the United States have taken.

So just to return to why this all matters, you know, we think that market participants benefit by having access to, you know, a universe of eligible collateral that gives them greater choice to operate in a risk-diversified and operationally efficient manner and that markets themselves benefit when we have broader collateral schedules and when we are able to align regulation with the innovations that are occurring in markets.

Thanks very much.

MS. BRADBURY: Thank you. That was very helpful.

Discussion questions before we move to a vote on the resolution?

MR. VITALE: I had one question, Michael. Really good presentation. Did the committee, and if so, what was the dialogue around the approach to haircuts and whether haircuts would be treated differently than the underlier?

MR. WINNIKE: So that's a great question. And as you can see, in the CFTC's 2016 margin rule, the haircuts for funds with redeemable securities is unspecified. Now, that, I believe, has been addressed by the Commission in the current rule proposal around money market funds, and this is actually think discussed by the Technical Issue Committee in the prior GMAC, that essentially there was administrative error. There was a footnote that was supposed to be in that chart that indicates that the correct haircut would be essentially a look-through approach. You look at the open-ended fund vehicle, and you look at sort of a weighted average of the haircuts for the assets they're holding.

So for Treasury ETFs, all of the assets that they hold are themselves eligible collateral, and then you can look at the haircut table, which is sort of a floor, I guess, not a ceiling on what market participants might agree, and use that to determine the correct haircut to apply.

And so we endorse that approach. We think that look-through is appropriate and that more holistically throughout the regulatory and, I guess, commercial sphere, we should really be treating fixed income ETFs like credit risk, like Treasury risk, the risk of their underlyings rather than treating them as, you know, equity risk just because they happen to trade on an equity exchange.

MR. VITALE: And was that unanimous in the working group?

MR. WINNIKE: Yeah, so that was discussed, and everyone was sort of comfortable with that approach?

MR. VITALE: Um-hum.

MR. WINNIKE: I think the key is understanding the transparency into the ETF holdings themselves so that market participants are able to make that determination of what the appropriate haircut should be.

MR. VITALE: Yeah.

MS. BRADBURY: And we have two questions in the queue, first, Brad Tully and then Chris Perkins.

MR. TULLY: Thanks. And less a question and more a statement of support from JP Morgan. So given the growth over recent years within the fixed income ETF ecosystem, we do believe it's an appropriate time for the industry and regulators to consider the eligibility of U.S. Treasury ETFs within the collateral framework for non-cleared derivatives margin.

As noted in today's presentation and recommendation, the use of U.S. Treasury ETFs could bring significant benefits to the swap market and swap market participants and broader market stability by enhancing diversification, liquidity, resiliency, and efficiency.

As Michael noted, the robustness of fixed income ETFs has been demonstrated in periods of market stress over recent years, including during the market volatility at the outset of the COVID pandemic at which, you know, ETFs were instrumental tools in providing liquidity and price discovery. The FRB also turned to those ETFs during this period as a way to efficiently allocate capital to the credit markets.

We do recognize that there are additional steps required to operationalize the use of U.S. Treasury ETFs beyond today's recommendation, such as putting in place the infrastructure to post and receive ETFs into margin accounts and the ability of third-party custodians to handle ETFs amongst eligible collateral. Nonetheless, we believe that today's recommendation is an important step forward, given the benefits it could bring to the range of constituents within the swaps market and to the market stability more broadly. Thank you.

MR. WINNIKE: Thanks, Brad. And that reminded me of an important second part of our proposal that we didn't really spend time on, which is that there are additional steps required to make the actual use of Treasury ETFs broadly accessible to all market participants, which is, you know, the prudential regulators that also oversee a large number of smart swap market participants would likely need to issue similar guidance for the industry to get comfortable, which is one of the reasons the second component of our recommendation is to ask and, you know, try and empower the CFTC to assist in those conversations with other U.S. regulators to seek broader alignment.

MR. WINNIKE: Thank you. Chris and then Isaac Chang.

MR. PERKINS: Hey, Michael, excellent presentation. I look forward to voting for it.

And I really appreciate your discussion around the look-through into the underlying assets.

The statement I wanted to make was as follows. We are also experiencing a world where tokenization is taking hold, and this is another example of being able to look through the underlying token into the underlying asset itself. And I just hope that the Commission will look at this similarly, and I'm hopeful that they will provide clear, consistent guidance that the tokenization representation will be supportable through various collateral regimes, whether it's uncleared margin or CCP accessibility. Thank you.

MR. WINNIKE: Thanks. Isaac?

MR. CHANG: Hi. Thank you very much, and thank you, Michael, for the presentation.

I had a question and then and maybe an observation. I guess the question I had, Michael -- and I think broadly -- I sort of feel like your presentation was very logical and clear and not that controversial. But is there a definition of what exactly constitutes a Treasury

ETF? Like do Treasury ETFs -- like structurally, what percent -- is there a percentage of assets that they have to hold in underlying U.S. Treasurys? Does it exclude any particular type of Treasurys? I guess, strictly speaking, I understand the argument that there should be the look-through of the collateral, if the collateral is the underlying securities in the ETF. And if the underlying securities are eligible as collateral, then an ETF should be treated similarly.

But I'm just wondering, first, is there actually a sort of strict definition of what constitutes a Treasury ETF? Like is there a certain percentage or if there's a certain -- or has to be 100 percent in Treasurys or if you think that the -- you know, where is the limit here in terms of what constitutes a Treasury ETF?

MR. WINNIKE: Great question. And just to clarify, maybe there's two answers. One is the, you know, answer in terms of, you know, the next step from a policy perspective, and then, you know, maybe a bigger question about other work that we might want to take on in terms of future recommendations. So we're advising on a technical basis that the existing category of eligible collateral which is for securities in the form of redeemable securities in pooled investment funds that invest in qualifying assets as defined in the uncleared margin rules themselves, that that already predefined category be expanded to include funds structures that are exchange traded funds.

So inherently if you say that, yes, ETFs can be treated as funds with redeemable securities, those ETFs would be subject to the limitations in the existing UMR rules, which define really the pool of assets that the fund may hold as sort of being limited to, I believe, U.S. Treasury securities, cash, and we can kind of pull up the specifics in more detail. But we're not looking to expand on that category, so the restrictions on the underlyings that a fund could hold are already predefined.

But, Isaac, I think your question does lead to another question that the Market Structure Subcommittee might want to take on, and are there other types of exchange traded funds which could serve as eligible collateral beyond, right, what is recognized in the existing limitations within the uncleared margin rules. And that would likely require a rulemaking, and so that is something that the Market Structure Subcommittee is looking at. But it would be more than maybe just a simple clarification and things, for example, like corporate debt ETFs, you know, it would really make sense, right, from a policy perspective, potentially because it allows you to post a diversified basket of bonds and kind of manage concentration, risk, et cetera. But that, you know, is obviously going well beyond the scope of what's permitted under the rule today. So that'd be sort of a follow-up.

MS. BRADBURY: Yeah. Thank you. Dave and then Chris.

MR. OLSEN: Thank you, Darcy.

MR. CHANG: Sorry, Darcy, just one follow-on comment --

MS. BRADBURY: Oh, sorry, Isaac.

MR. CHANG: -- if might before we move on. I just wanted to kind of note, I particularly appreciated Michael's description of the transparent nature of ETF trading, the resulting liquidity in times of stress. I felt like it was actually quite an interesting contrast to what looks like is going to be the next topic on the agenda, the swap block and cap size recommendations where we're potentially talking about not allowing more transparency in the swap market, where we just spent a lot of time extolling the virtues of transparency and liquidity in the ETF market. So that's all I have.

MS. BRADBURY: Point taken. Point taken. Thank you. Dave?

MR. OLSEN: Thanks. I wanted to go back to Jason's question just for a second. The subcommittee spent a bunch of time crafting this recommendation, and on behalf of the FIA PTG, I'm strongly in favor. But the haircut issue, at least as I recall, when it came up, the discussion I remember is that because this is applicable to uncleared margin rules, that the recommendation does not ask the Commission to take a position on haircuts, and that each bilateral counterparty collecting the margin would have the purview to set whatever haircut they felt was appropriate to manage the risk. And that, further, at least I don't recall a vote of the subcommittee on any issue around haircuts, so I'm not sure we know whether it was unanimous, although there wasn't material dissent expressed on this topic.

MR. WINNIKE: That's a great point. Just to clarify here, so I think what's really important for the uncleared margin rules, and just for clarification around how they apply, is that the regulatory scope of collateral and haircuts is the universe that market participants may agree to. Market participants are not required, right, to accept the full range of eligible collateral, and they're not required to accept it at the haircuts that are defined in the rule itself.

So if you are market participants and you don't want to take Treasury ETFs as collateral, you're free to not include those on your schedules. You'd be free to further amend your schedules to say I only want to take ETFs with over a certain trading volume or whatever risk parameters you think are appropriate to set.

That's also true for the conversation around haircuts, that I think we were saying we would pass through, right, the existing haircuts as they would be determined under UMR, which, as I described, would really kind of be a look-through based on the application of the rule as it applies today, rather than coming up with a new haircut that we would recommend as a standard. But that in no way forces people to take the collateral or to take it at that haircut. That is a floor, I believe, on the haircut, not a ceiling.

MS. BRADBURY: And, Chris, I think you're getting the last word here.

MR. ALLEN: Last word, but I'll also keep it brief. I just wanted to, first of all, applaud the excellent work of the subcommittee in this space. I think the analysis that Michael presented today and the papers that attended that were excellent, touched upon a number of really important points, and I look forward to voting in favor the proposal.

I just make the point that I think it reflects an evolution in terms of the market use of ETFs and the attendant liquidity and diversification benefits, which Michael touched upon in his presentation I think are factors that strongly commend supporting this proposal. Thank you.

MS. BRADBURY: Thank you. So we've now discussed the recommendation at length. And -- oh, I'm sorry, Commissioner, I didn't know if you wanted to make a comment at this point. Sorry.

And is there a motion from this body to adopt this recommendation?

MR. TULLY: Motion.

MS. BRADBURY: So we have a motion from Brad, and I need a second.

MR. VITALE: Second.

MS. BRADBURY: Great. Okay. It's been moved and seconded.

Any final comments, knowing that we're already a little half hour behind schedule, but don't want to restrict debate at all.

Committee members ready to vote? And the motion is to adopt the Market Structure Subcommittee's recommendations on U.S. Treasury ETFs as eligible initial margin under uncleared margin rules and submit this to the Commission for consideration. As a point of order, a simple majority vote is necessary. And I'm going to turn it over to our designated federal officer to conduct the vote.

MR. JUNG: Thank you, Chair Bradbury. And before we start, I was going to also recognize John Horkin from LSEG joining us virtually. So thank you again, committee members. So I will proceed with the vote.

Committee members in agreement, please raise your hand, say aye.

[Chorus of ayes.]

[Hands raised.]

MR. JUNG: Thank you. All right. Thank you.

And disagreement, please raise your hand and say nay. And those on virtual, please feel free to toggle the raised-hand function accordingly.

MS. BRADBURY: For those of you on screen, if your hand is still up from voting yes, you need to take it down, or if you want to vote no, you need to put it back up. There you go.

MR. JUNG: There we go.

MS. BRADBURY: All right. Can't vote twice.

MR. JUNG: All right. We have no nays. And then abstentions? All right. Please wait one second while we tally up the votes, and we'll come back shortly.

MS. BRADBURY: We want to extend a particular thanks to the staff of the CFTC for figuring out a much better procedure for voting for this committee, so we greatly appreciate it.

MS. HONG: And while we work to tally the votes, just one quick PSA because I know there's been some really terrific content in the presentations. The presentations as well as the formal recommendations will be available on the CFTC website within the GMAC subpage as of tomorrow.

MR. JUNG: Chair, you have twenty-eight yes votes, zero no votes, and one abstention.

MS. BRADBURY: So the ayes have it. The motion carries. Thank you to the Market Structure Subcommittee for all of their hard work. The motion has been adopted, and it'll be submitted to the Commission for consideration.

I now want to turn it over to Wendy Yun, who's going to present kind of a follow-up on the swap blocks and cap size recommendation from our prior meeting. And Wendy is online. Thank you, Wendy.

MS. YUN: Hi, Darcy. Thank you so much. And apologies for not being able to be there in person.

We wanted to provide a quick update to the recommendation that we made at the last GMAC meeting. So in relation to the block and cap sizes, the GMAC Market Structure Subcommittee continues to believe that a properly calibrated block and cap sizes are vital to the proper functioning of the U.S. derivatives markets, and that the increased block and cap thresholds that will take effect this July on July 1 did not properly strike the right balance between market transparency, as well as liquidity in certain swap categories.

As such, the subcommittee has been actively working with other market participants such as the swap data repositories and swap execution facilities in order to try to gather data and attempt to perform the data-driven analysis necessary in order to determine what is the appropriate or suitable block and cap sizes for each swap category and each asset class. So we hope to come back to the GMAC with any further updates based on that analysis.

As we highlighted at the last meeting, we in the broader industry continue to further evaluate the available data, but we ourselves cannot replicate the calculations and analysis that have been performed by CFTC staff. So the subcommittee would therefore ask and appreciate the opportunity to engage with CFTC staff to discuss our findings and questions related to the calculations and methodology, as well as potential impact on liquidity, especially in light of other factors right now that also may impact liquidity in the derivatives market, such as the increased capital requirements under Basel III. So more to come from our group, but we did want to reiterate our continued concern in this space and the continued work being done by the subcommittee.

MS. BRADBURY: Thank you, Wendy. I know the CFTC staff is always very open to discussions with market participants in particular, obviously GMAC committee members, so I'm sure that they will make themselves available for further discussion. Thank you.

I think that is -- we were going to take a quick break. We're a little behind schedule, so not too much chatting. And hopefully, we'll get back in here and do our next subcommittee presentation before we break for lunch.

MS. HONG: So we'll plan to reconvene at 12:15

back in the room and online. Thank you.

[Recess.]

MS. HONG: I would now like to welcome everybody back from that short break for the third item on our agenda today, which is consideration of the Technical Issues Subcommittee's recommendation. I'll hand it over to Allison Lurton and Charles DeSimone to present the recommendation on the publication of a T+1 resources document. Allison?

MS. LURTON: Thank you, Amy. And thank you, Commissioner Pham, for sponsoring all the effort that's gone into building up to today and also to you, Harry and Nick, appreciated your help. And finally, to my co-chair, Tara Kruse with ISDA, who is in Asia so can't be here in person, but she spends quite a bit of time helping us move things along, so I want to make sure I point out her contributions. The person that's contributed most to the recommendation to be presented is Charles DeSimone, so I'm really glad he's here in person.

I think a lot of folks around the table have spent quite a bit of time already on the transition to T+1, but we also thought there might be, because of the makeup of this committee, lots of different perspectives or questions that remained about the impact to adjacent asset classes or global jurisdictions. And so for that reason, Charles made the suggestion for the paper that is now coming to you for vote as a recommendation, and he has some slides that will help kind of summarize what the recommendation itself -- what the paper, which is a resource document, includes.

So turning it over to you, Charles.

MR. DESIMONE: Great, thank you very much.

If we could move to the first slide.

Before I get into the proposal itself, I do want to reiterate Allison's thanks to the Commission and the Commission's staff for their help in getting us to this point and as well to the subcommittee members who provided a lot of great input and perspectives to make sure the document really covers the issues that are of most relevance to people.

I think as Allison laid out at the outset, a lot of people who've been spending their entire day jobs focused on the T+1 transition. On the other hand, there is a broad number of people whose perspective, I think, has been either have kind of tangential awareness of it or perhaps a misconception that since they are not participants in kind of the core securities markets in question in the classic way, that this is not necessarily relevant to them.

And I think the purpose of the guide really is to help people who are either coming new to this or may not fully understand the impacts on it to really understand, A, what is the scope of what is happening in this transition, to understand that it is not just a U.S. transition affecting one asset class, but it is affecting a lot of different products. It is also an international transition in the EU and Canada and Mexico in parallel.

And it is really also setting the foundation likely for a review of security settlement cycles more broadly in other jurisdictions, and as well to really think through about if you are coming for the first time, do you understand what this is happening and what this means to start to think about where it may impact your business's products and processes which are either occurring in your organization or are occurring in your clients, counterparties, and market infrastructure providers you work with. So our hope, the goal is a resource for the members of the committee to share with clients and counterparties, and as well for the broader world of market participants to understand this major change that is happening in the securities markets.

Everything in this guide is designed to build on work which has already been done at the industry level to prepare for this transition. So as I go through this -- and in the document you all have received, our goal is wherever possible to provide links to more detailed resources that have been developed and approved by industry bodies. The transition to T+1 really is an industry effort, which is being driven, of course, through SIFMA, through the ICI, and with the leadership of the

DTCC, but has also involved a number of other trade associations whose products are impacted as well, the Association of Global Custodians, the GFXD, the FX Professionals Association, ISDA, the FIA, and others. And, where appropriate, this document draws on their resources as well.

So our hope is that it was a very timely meeting with the transition date for T+1 coming up over Memorial Day in the U.S., that the release of this document following the meeting today will provide a resource for the industry to build on as they make sure they understand what is coming and have a runway of at least three months to prepare for it.

So if we could move to the next slide, please.

I'll just give a quick tour. All of you have the document itself, so I'll just give a quick tour of the highlights of what we aim to cover in the document and the purpose of them. So one of the key themes in the document is really to provide an introduction and an overview. I think often people hear T+1, they may make assumptions on what's covered really to scope out what actually is impacted. Obviously, at a foundational level, that's what is the transition, what are the rules that are in play, and what's the SEC's decision, which authorized the transition?

Equally importantly is to understand the scope of what is actually moving. I think often people sometimes just assume that it is purely affecting U.S. listed equities. Also to note a number of other products that are in scope, corporate bonds, UTIs, mutual funds, ETFs, ADRs, and associated products as well.

And similarly, the corollary, I think, is to understand what products are not changing their settlement cycle, so there is not a mandate for a change in securities-based swaps. There are a number of exemptions associated with the underwriting process. And of course, U.S. Treasury bills, bonds, and listed options are already T+1 and so are not affected, so laying out those kind of basic scoping questions.

Similarly, to help people understand what the benefits of accelerated settlement are and why the industry as a whole has chosen to make this change, the key benefits, of course, being reduction in risk to shorter settlement times, capital efficiency through reduction in margin requirements held at the DTCC complex, and as well as general move towards efficiency as market participants move towards faster processing times and straight to processing, which are necessary for the accelerated settlement time frame.

And finally, kind of laying out what are the ways in which market participants will be affected. We talk later in the document about some of the specific product and process impacts, but to really kind of give a lens of, as you users of the guide look at their organizations to say what does it mean broadly? And that's something to think about terms like the impact on compression of time frames, compression of time frames particularly as it intersects with business operating hours and with time zone issues, as it interacts with certain legacy processes which may have been designed towards different operating time frames or dependent on processes which may now need to be accelerated, so kind of to help people get this perspective on what it means and how they should be preparing for it.

If we move to the next slide, I think another key element, as I mentioned at the outset, is that this is an international transition, so to outline what markets are moving alongside the U.S. on Memorial Day and provide some detail on those changes. So we do provide information on the decision made, A, by the Canadian Capital Markets Association to move in parallel over Memorial Day weekend and provide information on the full set of securities in Canada which are moving and the resources they are providing, as well as to provide information on what is happening in Mexico, given that they have formally announced their decision to move on May 27 as well so participants who are active in those markets understand that context.

We also highlight that we are expecting a number of other Central and South American markets to move alongside the U.S. later in the year, although that has not been formally announced.

The other element to this which we wanted to make sure people were aware of is the policy process which is beginning in the U.K. and the European Union around a reassessment of settlement cycles in those markets and to provide an introduction and link to what is happening in the process out of HMT in the U.K. and out of ESMA in the EU and when to expect some potential recommendations and decisions in those markets.

So moving then on to the next slide, great.

So in addition to thinking broadly about the impacts on the markets as a whole, we wanted to highlight and provide resources on a number of specific products and processes where the industry feels arguably the transition will have the most acute impacts and firms need to be the most prepared, and really then provide a link to the resources that the industry has developed around those areas so they can make sure that if you are active in these areas, that you and your teams are prepared for them.

So I'll just quickly highlight some of them. Obviously, trade affirmation allocation and confirmation processes are ones which are moving to a same-day cycle and from the current T+1 cycle and, unlike some of the items which are purely dependent on what's happening within a firm's four walls, are dependent on interactions and inputs from clients and counterparties as well. So we provide information on the rule changes, 15c6-2, how that affects broker dealers and their counterparties, as well as RIAs, and as well thinking about meeting those new regulatory requirements. What are some of the best practices that firms have begun to implement? What are some of the target affirmation rate goals and how firms should be preparing to get there?

Similarly, securities lending, another area in which those interactions among market participants used to be able to be executed with a longer time window, thinking about what will happen now that there is an expectation that they be executed by

11:59 on T of the trade and thinking about where there are exemptions for that, what are the impacts and what you need to be doing with your vendors and clients.

Similarly, collateral management, another area in which there is need for greater efficiency, we outlined a number of the operational impacts and some of the steps which market participants in the industry work around this area have already begun taking so that people who are coming new to this can understand how they should be organizing themselves as well.

And also perhaps of interest to this group are the impacts on OTC derivatives. We note the regulatory context for the OTC derivatives world, and noting that although considering as well the potential to move securities which reference in-scope securities to accelerate the settlement of them, even if it is not formally mandated, thinking about what that would involve, what those product types are, and as well as highlighting the work which ISDA is having underway through its own equity market infrastructure group to likely in the future issue a preferences grid to help firms as they make those decisions. Similarly, we also outlined a number of considerations around the securities lending market and those challenges.

If we move on to the next slide, please. Great.

So the next item we wanted to talk about in the guide is on cross-border impacts, and I think this is perhaps of particular interest to this group. And we highlight two particular areas in here and provide a number of resources for the industry. The first of these really is the FX markets implications. And kind of in relation to some of the themes I touched on before, the interaction between -- this really combines a lot of those challenges in that it combines time zone impacts, dependence on other product and process timelines, and dependence on market infrastructure, which does not operate on the new T+1 settlement cycle, so to help firms think through what this means, as well to counteract some of the misinformation that is out there.

I think there has been some misconceptions which SIFMA and others have heard that the interactions with the FX time frames and infrastructure present a major challenge to the move to T+1. I think following analysis by CLS and a number of trade associations, including the GFXD, there was a determination that in fact the number of impacted transactions as a share of total CLS that would be impacted is less than 1 percent. We highlight that analysis.

We also highlight some of the best practices which have been developed for FX professionals, for users of the FX infrastructure, and in connection with CLS to really, A, demonstrate that this is a manageable impact, and to think through how you should be preparing to work with your clients where FX is an element of securities settlement, in addition, thinking through some of the cases where this may be a particular challenge and how to address that such as clients in Asia where those time zone issues are particularly acute.

We also provide guidance for the impacts of foreign listed securities in the U.S. This is a somewhat complicated area where there's this building-on guidance which was previously put out by the Commission. We provide detail on a number of scenarios in the document for the number of trading volumes in the U.S. of the foreign-listed security, where it's listed, and then how that affects its settlement requirements under SEC rule 15c6-1.

I would like to note that the industry, as of Friday, has published additional guidance on this area, which we will be updating in the document to provide links to that new information which has been reviewed by the regulatory community. So generally consistent with what you see, but would like to know we would like to make a slight update to it to revise the link before publication.

Finally, we have additional -- if you move to the next slide, please. Finally, we have a number of other resources, which kind of once the goal -- I think of this as once readers of the guide have identified what T+1 means for them, where they need to be thinking and preparing for it, to kind of point them to what they need to move further along on their readiness journey. And some of the key resources here, I think, are the extremely detailed industry playbook, as well as documentation that the DTCC has put out, its FAQs, its documentation, and information on how to get integrated into its testing framework so firms can rapidly get up to speed if they are indeed needing to prepare for this transition.

And finally, we do have a resource as well highlighting a number of key markets and products in other jurisdictions and illustrating what their current settlement cycles are as a kind of at-a-glance resource for firms to think about how this transition may impact other products that they are active in and other markets and where there may be adjacencies, potential impacts, or efficiency opportunities.

So that wraps up really the contents of the guide. As I mentioned, we hope this is a resource which is suitable for everyone from people who have been ignorant of the transition, to people who are in the process of figuring out what it actually means for them and is designed to get them to a point where they are ready for a smooth transition over Memorial Day.

MS. HONG: Great, thank you. Thanks to Allison, Tara, Charles, and the Technical Issues Subcommittee for creating a helpful resource for the industry. I can't think of a better way to welcome summer 2024.

This is a major industry transition impacting both securities as well as related markets and with further global implications to bear. And so, you know, I do think that it's important to ensure that all market participants are informed, aware, and prepared.

At this time, I would like to open the floor to questions and comments from GMAC members. Please turn your tent cards sideways if you would like to ask a question or make a comment. We'll start off with Chris Perkins, who is joining us virtually from CoinFund.

MR. PERKINS: Am I on? Awesome, thank you so much for your comments and really respect and appreciate the work you've done. I was particularly drawn to the comments you made that this movement to T+1 will actually result in a reduction of risk and also deliver enhanced capital efficiencies. And, you know, when I was running one of the largest intermediaries in the world, these issues really resonated, particularly with the flow of collateral.

My question is how do we get from T+1 to T+0? And, you know, we appreciate that now we have technology that allows us to deliver it, so I don't [inaudible] --

MS. HONG: Chris, if you could hold on for just a minute, we lost your audio feed.

While we wait for our AV to be restored, we'll go to Dave Olsen in the room from FIA PTG.

MR. OLSEN: Thank you. Just a quick clarification. The one bit I wasn't sure I was as crisp on when I read through it was the CLS analysis saying that less than 1 percent of their daily transaction volume would be affected by the move to T+1. Obviously, their historical transaction volume has been in a T+2 context. Either I didn't quite get what data of theirs they were analyzing, or I might not have understood the point. Do you have more information about what data they looked at and how they came to that conclusion?

MR. DESIMONE: It has been released. I believe in the guide we have links to a number of resources that were put out through the GFXD's T+1 paper, and they include the detailed statistics around analyzing why the share involved is particularly low.

MR. OLSEN: Okay. I'll take a look at that. Thank you for that reference. And the reason I bring the point up is in speaking to other market participants and members of the PTG -- and you called this out very nicely in the update -- the participants in Asia that are trying to buy U.S. dollar-denominated instruments and handle the FX conversion, it appears to us as though really the only avenue to continue those transactions is to pre-fund the dollar leg and have that staged.

Obviously, if you know what you're going to do, there's just a cost involved. I think the trickier problem is markets are so dynamic, it's tough to know what to pre-fund the day before. You don't know what you're buying or selling. So I think that that's got particular focus for us.

MR. DESIMONE: Yeah, it's a great point. I think that's one of the challenges. And I think particularly for that subset of the market where the time zones could present that challenge, I think prefunding is the best alternative, although perhaps not an ideal one.

MR. OLSEN: And, by the way, we're proponents of moving to T+1 and moving all markets up so that they can be better synchronized.

MS. HONG: Thank you. I understand that we are back up and running with our virtual participants. Chris Perkins, let's try this one more time.

MR. PERKINS: Yeah, I don't know where I left off. But my question is -- you know, I really appreciate the work you've done with the industry to move it forward in this direction. I appreciated as well the comments around how a movement to T+1 will reduce risk and enhance capital efficiencies.

My question is, how do we move forward from here? And I appreciate we haven't even gotten to T+1 yet, but what are the obstacles standing in the way of getting to T+0, which I think will further build on these reductions in risk and enhance capital efficiencies?

MR. DESIMONE: Sure, happy to give some context from the SIFMA perspective and our members' perspective on why T+1, and arguably, the contrary to that is why not T+0? A number of the issues, particularly as we walk through the product and process impacts, really at this time there is not really an easy way to handle particularly securities lending transactions, FX impacts, all of these areas, prime brokerage areas, kind of the intersection of those issues as the processes exists today, coupled with time zone dependencies, coupled with client communications issues, coupled with different levels of maturity, automation, et cetera.

Those are obviously very large markets in which an institution which may have extremely sophisticated same-day processes is working with a range of clients with different levels of automation in different time zones in different regions. And I think the sense was that it really was not at this time realistic to have an overall industry transition to T+0 given the disruptions it would present to the broader world of adjacent products and processes. Arguably, there was discussion whether there's potential future operating models for those areas. As they exist today, there is no operating model for a number of those areas at scale which could support T+0 settlement.

And so we felt that T+1 was a realistic goal, which drives major reductions in risk and reductions in efficiency, but is also achievable based on current technologies and which builds on existing processes and products without entailing major disruptions.

I think there are a number of areas where individual market participants may choose to explore T+0 solutions for certain subclasses of transactions or with certain counterparties, and there's a lot of exploration in the ledger-based space around that. But I think our members' view strongly was that T+0 was not appropriate at this time, given the lack of preparedness and the lack of any infrastructure really to support the disruptions it would entail.

MR. PERKINS: Thank you. I'm happy to talk to you about infrastructure that can perhaps enhance your processes with you and your members, but I'll reserve any further comments.

MS. HONG: Great, thank you.

If there are no further questions or comments, do we have a motion to adopt this recommendation and submit the recommendations to the Commission?

MR. PERKINS: So moved.

MS. HONG: Thank you. Do we have a second?

FEMALE SPEAKER: Second.

MS. HONG: Thank you. The motion on the floor is for the GMAC to adopt the Technical Issues Subcommittee's recommendations and submit them to the Commission for consideration. A simple majority vote is necessary for the motion to pass.

I will turn it over to the DFO to conduct a voice vote.

MR. JUNG: Thank you, Chair Hong.

Committee members in agreement, please raise your hand and say aye.

[Hands raised.]

MR. JUNG: All right. Thank you.

And disagreement? Abstentions?

Virtual participants can put their hands down. Thank you.

And, Chair Hong, the ayes have it (thirty-one yes votes, zero no votes, and two abstentions). Thank you.

MS. HONG: Great, thank you. The ayes have it, and the Technical Issues Subcommittee's recommendation regarding the publication of a T+1 resources document has been adopted by the GMAC and will be submitted to the Commission for consideration.

We will now take an abbreviated lunch break because we are running behind schedule. We will plan to reconvene at 1:30 for both in-person as well as virtual participants, 1:30. Thank you.

[Recess.]

MS. BRADBURY: Welcome, everyone. We're going to restart our meetings today. I appreciate everybody's promptness coming up and down those CFTC elevators.

So we're going to have a very interesting panel discussion now on the impacts of Basel III on our derivatives markets and kind of thinking about all of the connections. We have a panel. We're going to spend about half an hour. I'm not anticipating we'll have time for discussion, but hopefully, there's a lot of diverse views on the panel, so you'll appreciate that.

We have Reggie Griffith, who's on the Zoom, and Dan Gallagher, Elisabeth Kirby, and Joseph Hwang. Is everyone here? Yeah, good. Great. There you are. All right. Thank you.

Is Reggie going to kick it off, or who's starting on your panel?

MR. GRIFFITH: I didn't think I was starting, but I'm here. I'm ready.

MS. BRADBURY: Well, I leave it to the panel, then. Thank you.

MR. GRIFFITH: Okay. Yeah.

MR. HWANG: I will kick things off. I'm Joseph Hwang from Goldman Sachs.

Members of the committee, thank you very much for the opportunity to be here. My name is Joseph Hwang. I am the head of the U.S. regulatory policy team at Goldman Sachs. My team and I are responsible for the firm's regulatory capital interpretations and policies. I'm here today on behalf of the Futures Industry Association, the FIA, as well as the International Swaps and Derivatives Association, ISDA, which collectively represent both cleared and OTC derivative market participants.

I will provide some background on two recent proposals from the Federal Reserve, FDIC, and the OCC. The first is known as Basel III Endgame, as you noted, and the second is on the proposal on the global systemically important buffer, or G-SIB for short. And I will speak to the significant increase in capital requirements expected for the largest U.S. banks and the impact that will have on the broader derivatives market.

So the Fed, FDIC, and the OCC released their proposals in the summer of last year. The proposed rules represent a comprehensive rewrite of the regulatory capital standards that the biggest banks are subject to. Every activity that a bank engages in will be impacted. And the goal of these new standards was to harmonize international capital rules without substantially raising the aggregate amount of capital.

But despite the original goal of not substantially raising the aggregate amount of capital, the Fed, FDIC, and the OCC estimated a 19 percent increase in capital for the largest banks. Industry estimates are even higher and closer to 30 percent. This is despite the consistent statements from Federal Reserve Chair Powell that the U.S. banking system is sound and resilient with strong levels of capital and liquidity. In addition, rather than harmonize the capital standards internationally, it will create further divergence. For example, the EU and the U.K. anticipate only a 3.5 percent increase in capital.

If we wade into the details of the proposals, we find that the proposals are most impactful to capital markets activities with derivatives both cleared and uncleared among the hardest hit. Because many derivatives are required to be cleared by law and most end users are not direct members of a clearinghouse, they rely on banks or futures commission merchants, FCMs, to facilitate their hedging needs.

And over the last 20 years, the number of FCMs has decreased significantly, with U.S. banks being the predominant providers of clearing services. For example, as of July 2023, nearly 85 percent of all swap client clearing was conducted through only five U.S. G-SIBs. Notably, the clearing markets have shown itself resilient through multiple stress events, and yet this activity is among the most penalized within the proposals. Based on a study by the FIA and ISDA, these proposals would increase the capital costs associated with client clearing by more than 80 percent, nearly doubling the capital requirements for this activity.

There are three aspects of the proposals that I would like to highlight that drive the dramatic increase, none of which reflects the benefits and values of clearings. First is related to G-SIB. The proposal requires client clearing to be included in the measure for complexity, one of the five measures of systemic risk. In effect, the proposal takes the view that clearing activity increases a bank's systemic risk and complexity.

Meanwhile, U.S. policymakers have promoted clearing as a means to do the exact opposite, to reduce both systemic risk and complexity in the derivatives market. And, as a result, the proposal will raise the minimum capital requirements for all of our banks' activities. Now, I would note that the U.S. is the only jurisdiction that has taken this approach.

Second, and in relation to the Basel III Endgame, banks will be required to hold credit valuation adjustment, or CVA requirements, for client-cleared derivatives. However, this is in contrast to the fact that banks have no risk of CVA losses on client-clearing activity, a point that has been recognized in Europe, which exempts client clearing from the new CVA capital requirements.

And finally, the third item here also within the Basel III Endgame, banks will have to hold more capital to the extent that a bank is transacting with a non-publicly traded company. This is despite the fact that being public or private has no bearing on creditworthiness. Again, European banks do not have this requirement.

With each of these items, there is a clear competitive disadvantage for U.S. banks and their clients. If the rules are finalized without change, we believe this will have the effect of higher transaction costs, reduced market capacity for cleared derivatives, and more activity moving abroad.

Similarly, uncleared OTC derivatives which allow corporations to hedge their bespoke business and operating risks will be meaningfully impacted by the CVA requirements as well. Industry estimates show that the capital requirements can increase by over 10 times for uncleared derivatives with corporations. Europe has once again exempted transactions with corporations and pension funds from the CVA requirements to avoid disincentivizing prudent risk management and hedging practices.

And finally, I would note that these concerns go beyond the impact of derivatives as the largest U.S. banks will no longer be able to engage in the same lending and intermediation activities as they do today. These proposals would therefore undermine the overall strength of the U.S. capital markets.

Thank you for your time on this important issue, and I'd be happy to answer any questions.

MS. BRADBURY: Do other members of the panel have presentations or -- yeah.

MS. KIRBY: Thank you. Thanks, Darcy. Thanks, Commissioner Pham and the GMAC, for having me today. I'm Liz Kirby, head of market structure for Tradeweb. Tradeweb broadly supports regulatory capital rules that are appropriately calibrated to support market functioning and the safety and soundness of the banking system. However, we urge that any rulemaking is approached with caution to avoid negative impact on the functioning and liquidity of U.S. and global financial markets.

By way of background, Tradeweb is a leading global operator of electronic marketplaces for asset classes including rates, credit, equities, money markets, and derivatives. Founded in 1996, Tradeweb provides access to electronic trading, data and analytics, straight-through processing and reporting for more than 40 products across institutional, wholesale, and retail marketplaces. Our role is to help make these markets more efficient, and our network of users includes banks, investors, trading firms, and retail advisors, amongst others.

While Tradeweb itself is not a banking organization directly subject to the Basel III rules, we do have a unique vantage point and an interest in maintaining well-functioning markets. We're concerned that significant increases in regulatory capital requirements for trading activities could have harmful effects on important financial markets, U.S. market participants, and the U.S. economy.

Well-functioning financial markets require a diverse set of participants to ensure deep and liquid markets, but meaningfully higher capital requirements could reduce or even eliminate the ability of certain banks to act as liquidity providers. This could have the unintended consequence of lower liquidity overall and greater dependence on less highly capitalized market participants.

We urge policymakers to seriously consider the global market's landscape so as not to impose capital requirements that are significantly more onerous in the U.S. than those being put into place in other jurisdictions. Failing to pursue an objective of harmonization could result in U.S. markets and U.S. banks being disadvantaged relative to their peers in other jurisdictions.

In a similar vein, we remain concerned about regulatory-driven fragmentation in which markets in different jurisdictions may offer the same asset class but with wildly different liquidity profiles and economic terms. I'll touch on a few asset-class-specific considerations, beginning with cleared derivatives. I'll note that counterparty credit risk mitigation through central clearing has been broadly endorsed by global regulators, and the use of central clearing continues to increase in response to market trends and regulatory mandates. However, both the G-SIB surcharge proposal and proposed CVA capital requirements would result in higher surcharges and increased capital requirements for banks facilitating access to clearing, including for instruments mandated for central clearing.

In addition, I'll note U.S. GAAP does not recognize CVA for these exposures, and other jurisdictions, including the EU and the U.K. have either excluded or proposed to exclude these exposures from their CVA risk capital requirements.

Market participants and regulators have already noted recent decreases in the number of firms providing clearing services, and we know from our participant base that concerns around clearing capacity are growing. Proposed Basel rules could further inhibit bank participation in clearing, leading to increased concentration, increased costs to end users, and potentially a contraction in market participants' access to clearing services.

I'll touch on Treasurys for a moment. Liquid U.S. Treasury markets are essential to global financial markets and the overall economy. Regulators, including the agencies putting forth the Basel III proposals, have recognized that maintaining deep and liquid U.S. Treasury markets is a core policy objective, given the centrality of these markets to financing the U.S. Government, implementing monetary policy, and setting prices for a range of financial instruments, amongst other things.

The ability of bank dealers to provide liquidity in U.S. Treasurys is critical in all market conditions, but the consequences of illiquidity are particularly acute during times of volatility or market stress. The market disruptions at the beginning of the COVID crisis in March 2020 clearly illustrate this issue. Regulators, academics, and market participants have acknowledged that liquidity pressures in these markets at the time may actually have been exacerbated by bank capital requirements with widespread consequences for financial markets and the broader economy.

It's important in all markets and asset classes to consider the consequences of any rulemaking in the context of other regulatory initiatives. This is particularly topical for the U.S. Treasury market, which has been the subject of several recent legislative actions by the SEC. Last month, the SEC adopted a rule to expand the set of participants required to register as dealers. In the Treasury market, this will have a clear impact on proprietary trading firms who are viewed as critical sources of liquidity in this market.

In December of '23, the SEC published a clearing mandate for repo and cash Treasury securities. This is a transformative piece of legislation that will impact Treasury and repo market structure in many ways which are not yet defined. My earlier comments relating to the Basel III impact on clearing capacity are critically important against the backdrop of a Treasury clearing mandate.

Given the criticality of these markets, we strongly urge the official sector to carefully consider the aggregate impact of these various rulemakings and avoid imposing regulatory capital requirements that could exacerbate liquidity shortages.

Funding markets, including securities borrowing and lending, as well as U.S. Treasury repo, are essential in supporting and enhancing overall liquidity and functioning of financial markets. Money markets are a foundational component of U.S. capital markets, permitting companies to fund their growth and U.S. workers to save for retirement.

We urge regulators to carefully evaluate how capital requirements could affect bank participation in these important markets and to ensure that there's a clear understanding of any related downstream effects. For example, if not appropriately calibrated, minimum haircut floors could impact the ability of banks to engage in funding transactions and provide liquidity in both cash and funding markets. It's noteworthy here again that other major jurisdictions including the EU and the U.K. have not proposed a minimum haircut floor.

I'll touch briefly on ETF markets, an important and growing market for both institutional and retail investors. Excessive calibration of capital requirements for equity investments in ETFs and the inclusion of ETFs within the definition of a financial institution for the purpose of interconnectedness could reduce bank participation in ETF markets in a way that not only decreases liquidity, but could increase costs for market participants, including retail investors.

Lastly, I'll mention some concerns related to the mortgage market, specifically with respect to mortgage-backed securities issued by Fannie Mae and Freddie Mac. Starting in June 2019, MBSs issued by these two agencies were consolidated into a single uniform mortgage-backed security, or the UMBS. The intention of this change was to establish a single liquid market for the securities issued by both agencies with a view to improving liquidity in the MBS market. The Basel regulations need to clarify that MBSs issued by both agencies will be treated as the same obligor for the purposes of market risk capital requirements. Treating them as two independent issuers could have negative implications to the depth and liquidity of the residential MBS markets with potential implications to the cost of residential mortgages and to the U.S. housing market.

Once again, we support appropriately calibrated regulatory capital requirements that contribute to the stability of our banking system and bolster the functionality of U.S. capital markets. However, we remain concerned that the Basel III framework, as proposed, risks over-penalizing the U.S. banking system, which would likely have an impact to U.S. financial markets' liquidity and could negatively impact the functioning of these markets, particularly during times of stress.

We urge regulators to consider the potential impact of these regulations in the context of other regulatory reforms that are currently being proposed or already adopted. The loss of bank market-making capacity, particularly in critical markets like U.S. Treasurys, could result in diminished liquidity and hamper the functioning of this essential market.

Lastly, we believe rule-makers should consider jurisdictional differences in Basel III implementation to avoid market fragmentation and ensure that U.S. banks and financial markets are not unduly disadvantaged relative to other global markets or foreign domiciled banks.

I appreciate having the opportunity to share our views with the GMAC today. Thank you for having me.

MR. GALLAGHER: Commissioner Pham, members of the committee, thank you for inviting me today on the discussion on the proposed Basel III Endgame regulation and its potential unintended consequences on bank customers, particularly non-publicly traded entities. My name is Daniel Gallagher. I'm the director of commodity sales and trading at Basin Electric Power Cooperative in Bismarck, North Dakota. I'm speaking today on behalf of Basin Electric Power Cooperative and as a representative of the National Rural Electric Cooperative Association.

The National Rural Electric Cooperative Association is a national trade association representing nearly 900 local electric cooperatives and other electric utilities. And we share an obligation to serve our members, providing safe, reliable, and affordable electric service.

The United States' electric cooperatives are owned by their members and operate at cost and without a profit incentive. From suburbs to remote farming communities, electric cooperatives power one in eight Americans and serve as engines of economic development for 42 million Americans across 56 percent of the nation's landscape.

Basin Electric is a not-for-profit generation transmission cooperative that provides supplemental power to 141 member cooperatives across nine states. We serve over 3 million electric consumers, and our members' service territory is comprised of over 550,000 square miles.

We are concerned that the proposed rule and its requirements that large banks hold more capital requirements for transacting with non-publicly traded entities, including electric cooperatives, will make effective risk management and lines of credit more difficult and expensive for electric cooperatives, and this is without materially improving the risk management for the banking sector.

Specifically, we believe that the proposed rule will have serious consequences for our ability to execute the contracts necessary to have a successful risk management program, which is vital to hedge market and price risks. As an example, as part of an electric cooperative's risk management program, a cooperative may purchase natural gas in advance on a long-term basis and at a fixed price and use this for its natural gas power plants. This fixed-price fuel is then essential to protect the electric cooperative's financial position since the electricity market's price is often set by the spot price of natural gas. Therefore, if spot natural gas prices spike, the electric cooperative's purchase price of electricity often spikes higher as well. However, in this scenario, the natural gas hedge financially protects the electric cooperative and its member consumers from higher electricity prices as it generates electricity using the lower fuel price.

This example can and does occur such as during Winter Storm Erie in February of 2021 when some natural gas markets traded for over $300 per MMBtu in what normally was an approximately $3 per MMBtu market. If electric cooperatives are unable to secure the appropriate financial instruments to mitigate their market and energy price risks, then these costs will be financially detrimental to people and businesses across the United States.

As a result of these regulations, our large bank counterparts would face increased capital requirements for such transactions because electric cooperatives are not publicly traded. In turn, large banks may be less willing to participate in such transactions or, at a minimum, increase our costs for participating in the transactions to cover the additional costs imposed by stringent capital requirements. Electric cooperatives will incur increased costs simply because we are not publicly traded.

Importantly, if these regulations result in less participation in these commodities markets, liquidity will be reduced. Consequently, electric cooperatives and their members would be unable to adequately protect against price spikes that occur during frigid winter or hot summer weather, which may lead to electric rate increases or more severe forms of financial distress.

Electric cooperatives serve 92 percent of the nation's persistent-poverty counties. Our members cannot afford undue electric rate increases, particularly when those rate increases could have been avoided. We know research demonstrates that well-conceived and executed hedging policies mitigates risk. However, effective risk management programs also rely on well-functioning liquid commodities markets. The proposed regulations would jeopardize these markets.

For over 80 years, electric cooperatives have responded to the needs of their communities and adapted to numerous challenges to meet that commitment. The Basel III Endgame regulations are being proposed to reduce systemic risk in the financial markets. We believe the regulations will have a negative impact on our and the electric sector's ability to hedge commodity and interest rate risk, thus increasing price risk for our consumer owners.

We take exception to the public listing requirement, as electric cooperatives are not listed on equity exchanges and do not present any additional credit risk to banks.

Thank you for the opportunity to speak today, and I'm happy to answer your questions.

MS. BRADBURY: Thank you, Dan. Thank you for coming all the way from Bismarck, too, we appreciate it, and providing a very different perspective on the impact of regulations, really helpful.

Reggie, I think you're our last speaker, and then we'll have some time for discussion once each of you has presented.

MR. GRIFFITH: All right. Can everyone hear me okay? All right. My name is Reggie Griffith, and I really appreciate you guys having me here today. And I apologize I couldn't make it in person.

I'm the global head of regulatory compliance for Louis Dreyfus Company. Louis Dreyfus Company is a global agricultural merchant and processor, and we're very active in the cotton, grains, oil seeds, sugar, and coffee markets. Also, I've been discussing these proposed regulations with other agriculture companies through the Commodity Markets Council.

When people think of a commodity merchant, they think of a middleman buying commodities from producers and selling them to end users. This is true. However, what many people do not realize is one of the main functions of a commodity merchant is to absorb risk. Both the producer and the end user to lay off risk to the merchant. And one of the primary ways that we manage these risks are through the futures markets. Therefore, any changes to these markets and the clearing firms that offer access to these markets can have a material impact to the agricultural system.

That is why I'm here today and why we're concerned about the potential unintended consequences of these regulations on the futures markets and the agricultural system, particularly the increased capital charges on U.S. bank-owned FCMs.

One thing I think I want to make sure everybody understands before I go into the potential consequences is we talk about the number of FCMs. And I realize I think there are over 40 active FCMs out there that are registered. But when you look at FCMs that are actually active and available and willing to handle large merchant business, we're probably talking about 10 or less, and four of the largest ones are U.S. bank-owned FCMs that will be hit by these increased capital charges.

So as far as the consequences, you know, I think best-case scenario would be an increased cost to the merchants to manage the risk. With that said, these costs can significantly go up and are not going to stop at the merchants. The costs are going to be passed along, and they're going to lead to less money for farmers, higher costs for consumers.

However, I really feel that this is a best-case scenario. What we are really worried about is that merchants and the ag industry as a whole will not have access to the clearing services required to properly manage the risk. Many times, we are way too focused on ensuring firms don't have too large of a position. However, the real risk is that firms don't have the capacity to put on enough futures to properly manage their risk. This is when you really inject risk into the system.

So if we step back to the Basel III implementation of capital charges from the original implementation, merchants where probably some of the hardest-hit customers. You know, you have to realize we have very large positions and relatively low volumes compared to other types of participants. Therefore, we were particularly hard hit by increased capital charges, and I think if we have a further increase, we're going to be even harder hit here.

So before these regulations went into place, I mean, we were a top-tier client. People were always calling. They were begging for your business. They were talking about lower rates. After the Basel III increased capital charges went into place, the calls completely changed. It was about higher rates. It was about can we diversify your business? Can we take on less business? Could you split it up in between multiple clearing firms? Which is why we're very concerned that if these potential rules go into place, about our business and the agricultural sector really having the capacity to put on the futures that are needed to properly manage risk.

Also, we're at a dangerously low level of FCMs that can even handle large commercial or even institutional business. I'm not going to blame this all on Basel III, but what I will say is if we lose any more large FCMs, I really believe the entire FCM exchange clearinghouse model could be in jeopardy. And these new rules could potentially push one or more large bank-owned FCMs out of business.

Also, my last comment, I realized that we're talking about banking regulations, but I think these regulations could have a severe impact on the futures markets. With that said, I think it is very important that the CFTC is at the table as we discuss these regulations and the implementations of the regulations going forward.

I really appreciate the opportunity to be here and discuss this, and I'm happy to answer any questions you may have.

MS. BRADBURY: Thank you. And thanks to all the panel for the presentations and the different perspectives.

Discussions, questions for the panelists?

I see Chris.

MR. PERKINS: Thank you so much for your thoughtful comments. Reggie, I've got a question for you. You know, I also share the concern around the impact of Basel capital on FCMs. And we've seen a material, I guess, elimination of FCMs across the market over the last 20 years. It's a business that I know well.

In the absence of an FCM, do you think a direct model where you would face a CCP direct, provided you were afforded some of the benefit -- the identical benefits, is that a viable alternative if these Basel rules continue?

MR. GRIFFITH: I think it potentially will be where we are headed. The problem is, though, I think there's only a finite number of commercials that have the capacity to do it. I think that's one problem. Two is I think you remove a level of risk management. I mean, right now we have the client, we have the FCM, we have the exchange, we have the clearinghouse. I think when you remove one of those levels, you know, you potentially are going to inject more risk into the system. But I do think that direct clearing or potentially even, you know, the exchanges or clearinghouses stepping up and clearing directly are where we may have to go if we see a further reduction, especially in the bank-owned FCMs.

MR. PERKINS: Thanks.

MS. BRADBURY: I wonder, Dan, if you have an interest in that question? Do you think your members could do direct clearing without an FCM?

MR. GALLAGHER: I think it'd be a challenge. You know, whether we're talking about through exchanges or off-exchange and bilateral transactions, I think either way we have the same challenge. And many of the markets that we transact in on behalf of electric cooperatives are not necessarily highly liquid markets. And so that's another component of this regulation that presents a serious challenge to us.

Many of these are illiquid markets, whether it be regional natural gas markets or regional electricity markets, and there's not a lot of liquidity there. So any hindrance to the existing liquidity presents major challenges.

MS. BRADBURY: John Murphy online?

MR. MURPHY: Thanks very much. Thanks for your comments. The entire panel, I think, was excellent.

So my question would be more around hedging and what hedging might look like if prices do increase again. We saw, I would say, extreme markets in 2022 based on what was occurring in Europe, particularly around gas, and we did see margins increase across exchanges so prices rose significantly for exchanges and for FCMs and end users as well.

At that point, I think we reached a situation where different firms decided not to hedge some of their portfolio that they would normally hedge. What kind of a risk do you think that presents to the overall marketplace where we see unhedged markets in environments that would normally see fully hedged?

MS. BRADBURY: Would any of the panelists like to tackle that?

MR. GALLAGHER: I can start. I agree that this proposal would also provide additional challenges during times of price volatility. In addition to the points just referenced, there's also the concern about raising capital and the ability to do so cost effectively. This proposal does hit at the heart of that as well, and it does have some real impacts across the country. For example, in the electric sector, the ability to raise capital is vital because in electric cooperatives, we are heavily financed through debt capital. Unlike a publicly traded investor-owned utility, there's not a direct access to equity there.

So any of those additional costs through price volatility in the markets are then passed along to the end consumer. And any increases in the cost of capital, likewise, either result in the possibility of having less reliability in the electric grid or resiliency. So there's a lot of different impacts here, not just in terms of from a consumer's bill and the price volatility that would result, but also in the reliability from the actual products.

MR. MURPHY: Thank you.

MR. GRIFFITH: And, John, can I add to that as well?

MR. MURPHY: Please.

MR. GRIFFITH: I do think we've seen -- you know, obviously, all of our businesses are very competitive, and anytime the, you know, costs go up, I think, especially with small to medium-size players, you know, the tendency is, you know, sometimes to maybe not be fully hedged. And I think that as costs go up, that risk goes up even further. So I do think your point about, you know, injecting further risk into the system through the increased cost is definitely there.

And also, I mean, we've both been in the clearing business, I think, our whole lives. We know, you know, today, the clearing capacity that's there for even the large firms is not nearly what it's ever been in the past. So I think cost is one aspect of it, but I also think, you know, even if they're willing to take on the fees, I'm maybe even more concerned that the capacity is there for them to put on the hedge as they need for sure.

MS. BRADBURY: Yeah, it was very interesting in the European markets when, as a result of the invasion of Ukraine, obviously energy markets in particular became quite volatile. And the higher margin requirements had a real impact on utility companies, and so the European Union stepped in and actually said, no, banks have a role to play here and kind of changed their approach to enable customers, you know, to access lines of credit from banks to meet margins in volatile times.

So I think it was it was Joseph's initial presentation where he talked about kind of the tradeoffs between wanting to promote clearing, and that's been a huge thrust of global policy around derivatives since the financial crisis. And yet, do we really recognize always all the benefits of clearing as they filter through other things?

I think we have just a couple more minutes. Oh, I'm sorry.

MR. NICOSIA: Thank you, Darcy.

Just to follow up on a couple of these comments and the regulations that are being put forth, which really could have devastating effects, even more so than what we're talking about. So if we break it down really quickly, the small FCMs have no ability whatsoever to absorb the level of business if any of the large FCMs leave. And so not only does it leave you with the potential of unhedged positions, which increases market risks and default, but the end result of that that really people will quit making markets because when they reach their certain level of risk capacity, no matter how big the merchant or trading firm is, they'll stop. And so then our producers or users don't have the bid to lay that off.

But it doesn't stop there because then as we move into the FCM community as you go forward, don't forget, the FCMs share capital and default risk, right? Now, when you start to take that larger capital out, we clear ourselves. But now if you start to remove that, as a percentage, we start to take more and more risk within that clearinghouse to where it is. At some point in time, our risk people tell us, no, we're not going to take the risk, so even the self-clearer then gets pulled out because of the level of risk that he has to take. And the domino effect keeps all the way down the line. Eventually, it hits liquidity. It eventually hits the volumes that goes through, and eventually it's the producers and the end users in all cases.

So the whole idea to try to move things to clearing and exchanges in order to be safer, this does the exact opposite, removes it from the markets, and literally without the big FCMs, the model will actually fail and the exchange themselves can't be a self-clearer because they don't know have the capital either.

MS. BRADBURY: And, Commissioner?

COMMISSIONER PHAM: Well, I want to thank the panelists so much for the presentations. They've left a deep impression upon me, and particularly being able to hear from our commercial end users who, of course, are the reason why we have the derivatives markets to enable the risk transfer that allows them to do what they do in the real economy. So I want to thank you for taking the time to be here.

What I'm hearing again from our electricity producers, from our merchants that support our growers, that there is a call to action for the CFTC, and I appreciate that because the last time we had policymaking that involved the SA-CCR and the impact that might have had on access to clearing, the CFTC did engage with the prudential regulators on that issue, and I believe that ended up in a place that was better for the clearing ecosystem.

So hearing this call to action, what would any of the panelists or any of the GMAC members suggest that the CFTC do next? Is this something that should be discussed at the FSOC? Should there be some type of joint roundtable with other regulators? Should the CFTC send a letter? I really welcome any input from the public on this issue.

MS. MESA: Yes, yes, and yes. I mean, I really do think -- I know the CFTC has been engaging with staff from the prudential regulators, but I think anything more public is important because it is these markets that will be impacted. I know you've been, Commissioner, a great spokesperson on this issue and panels and in public fora. But I think more of, you're right, the action of roundtables, letters on the record would be very impactful, so we support all of your ideas.

MS. BRADBURY: Well, and that's why regulators put proposals out for comment is to get comments, right? You don't necessarily get all the things right the first time around.

All right. Well, it's been a terrific discussion. I want to thank our panelists. You missed out big time, Reggie. You missed the sandwiches at lunch. And we're sorry you're not here, but we really appreciate all the panelists coming in and giving quite distinct impressions from the different angles of the marketplace, very helpful.

MS. HONG: Great, yes, thank you, very timely, especially given the hearing today and, you know, all of the industry feedback in response to the proposal just a number of weeks ago, so thank you very much.

With that, we are now ready to move into our fifth and final topic for the day. I'd like to turn it over to Caroline Butler, Sandy Kaul, Adam Farkas, Diana Barrero Zalles from GBBC, and Ninand Nirgudka from BCG to present the Digital Asset Markets Subcommittee recommendation on digital assets taxonomy. That was a mouthful.

MS. BUTLER: I think it proves it takes a village.

I appreciate we're standing between a lot of trains, planes, automobiles, so we will try and be as efficient as possible. This is our very first recommendation, so we're very excited to bring this to bear. It also serves as a core foundation for other recommendations that we will make over the course of the next coming months.

But before I introduce and hand over to Diana and Adam, I just want to say a sincere thanks. It really did take a village. The committee came together very well. We do have quite a diverse committee across the digital and traditional players in Digital Asset Committee, and that diversity infused a lot of very good debate. And I think we came up with a very thoughtful work product as a result.

I also want to say a huge note of gratitude on behalf of myself and Sandy, to Allison Parent and to Sandra Ro. Unfortunately, they couldn't be here today, but they did a tremendous amount of work navigating the different perspectives through to this work outcome, so I think we all owe them our gratitude for that. And obviously to BCG, who were very, very, very helpful in terms of providing a structure for us to progress to this point as well.

A good friend of mine always says "words make worlds," and we are hoping that these words will make regulations where appropriate. They will help navigate us to the places where regulations actually already exist, and we don't need to make new regulations. There may be tweaks that are needed, but we will definitely use this taxonomy as a core product to be able to determine what within the level of specificity that exists within the use cases for digital assets or the actual assets themselves require new regulations or tweaks to existing regulations or maybe actually fall outside of regulations. So I think that's going to be a very key next step for this.

Importantly, as well, this is just the start. So I think taxonomies should be viewed as an evolving product. The breadth that we will start to cover as this industry evolves, we talked about it earlier, evolution is probably a mild term for digital assets and the speed at which it is evolving, and also the depth that we will take this taxonomy through to will be developed over the course of the next couple of months.

So without further ado, I will hand it over to Adam first, who will walk us through the definition types.

MR. FARKAS: Thank you. Thank you, Caroline and Sandy, for your leadership in supporting the development of the digital asset classification approach and taxonomy recommendations for the subcommittee.

As discussed, the key value is that diversity of experts represented on DAM has analyzed collectively to provide guidance on the underlying features of digital assets, introduces a framework on how to categorize digital assets, and provides baseline definitions under each category of the relevant assets instruments to reinforce the category approach.

I will start the presentation with some definition issues and some considerations that were taken on board when developing these recommendations. Can we go to the next one?

So the definition of a digital asset which was used for the purposes of this taxonomy is that a digital asset is a controllable electronic record where one or more parties can exclusively exercise control through transfer of this record and where the controllable electronic record itself is uniquely identifiable. Excluded from the definition of digital assets are those controllable electronic records that exist in and function solely as a part of a financial institution's books and records.

The economic functions of digital assets may serve a variety of economic functions as a store of value; medium of exchange or payment; means of investment or trading; or a utility to access other goods, governance, or other services.

The group also looked at assets with existing regulatory framework, and I think Caroline already made reference to this. Within those economic functions when those assets have the characteristics of regulated instruments that do not qualify as digital assets, a specific regulatory framework may already apply. And the subcommittee believes that digitalization does not, as a legal or practical matter, alter the functioning of the product or service with the result that it's unnecessary to look beyond the existing classification for the regulated instrument.

Also, the subcommittee looked at some key features beyond the economic function of the assets. Given the nature of digital assets, regulators and standard-setting bodies should consider key features beyond economic function to classify these assets and to determine what regulatory framework, if any, is adequate. This is similar to how frameworks such as those that are used for classifying a security or financial instrument is already applied today.

And lastly, there was one important consideration which was a caution about classifying assets by network type. The subcommittee recognizes the importance to not classify digital assets by reference to the type of database or network type on which they are issued or recorded. Doing so is inconsistent with how financial instruments and non-financial instruments today are classified and could have unintended consequences for the application of market regulations.

So after these considerations, the value of the framework which is put in front of you recommended to GMAC to adopt is aimed to assist both policymakers and market participants to engage effectively and to work collaboratively as markets continue to innovate. To illustrate how the framework works, in the appendix of the document, the DAM has provided a collateral use case as a reference as well.

Right now, I would like to pass the floor to Diana from Global Blockchain Council, who will now provide an overview of the features of digital assets and also walk you through the categories of the framework. We look forward to GMAC members' approval of these recommendations and welcome any questions after Diana has remarked.

MS. BARRERO ZALLES: Excellent. Let's go to the next slide, please.

It's very important to consider that digital assets can be characterized by specific features which were identified by the group, the first being issuance. Issuance is very important, meaning whether the entity that issues a digital asset or for whom a digital asset is being issued by a service provider exists and the nature of it, the second being how a digital asset holds value, the concept of being pegged, meaning a market price being referenced to the notional value or amount of a different asset that it's based upon, or unpegged, meaning that the price would be free floating, determined by market supply and demand for the asset.

The next key feature is how the digital asset would confer rights, meaning providing the party or parties that control such a digital asset a legally enforceable claim or rights against the issuer.

And the fourth key feature would be fungibility. Is a digital asset -- is it possible to divide it into individual units that are interchangeable like-for-like, or is it completely unique being non-fungible?

The next feature would be how the digital asset could be redeemed, meaning the ability to relinquish ownership of a digital asset in exchange for an equivalent value of a different asset class or whether, if no issuer exists, if the issuing entity has no obligation to redeem the asset as a consideration.

And the final key feature would be how the digital asset is recorded in books and records. Is it a digital twin, meaning representation of traditionally off-chain asset, or is it digitally native, meaning inherently exists on a blockchain?

Important issues to consider given these features that were identified by the group would be that not all digital assets have all these features. This is an emerging industry, and there may be additional features developed over time as innovation continues. And these characteristics and classifications accordingly would evolve. This is just a starting point. And when these key features are present, it may indicate to regulators a way to evaluate these type of assets and use a use-case-driven approach.

And if we go to the next slide, please, I want to speak to where we are today, why it is important, and how does that pave way for next steps? Starting with what we have done in the working group, we have put together, like you can see, a categorization of digital assets that helps differentiate among the different kinds. The group has put together the main buckets and subcategories based on the specific features mentioned in the slide before.

This is very important, I want to highlight, because this taxonomy reflects the consensus of key stakeholders that have ranged from large global banks to regulatory entities, crypto native firms, and international organizations, who all came together over several months to agree upon different digital asset categorizations and corresponding definitions. It has been a journey that I don't know of any other organization having undertaken in the way that this working group has. And the output, if it truly reflects agreement and consensus that that we got to from all the players involved, can be extremely valuable for the next steps. We have, as you can see the digital asset types as the main buckets, the specific instruments related to them, which often have different subcategories.

In the future, this consensus-driven categorization and definitions can put us in a position to evaluate as a voice reflective of the industry the regulatory status of each of these instruments and potential action items. Potential questions to consider could be do existing relevant regulations apply? Is there a need for reevaluation? And are there novel issues presented by an entirely new offering that may require further interpretation? So as we walk through these main categories, each has a definition that we have in the annex, and obviously, pages 5 through 9 of the actual document have the actual definitions put together.

But ultimately, I want to summarize saying that this digital asset classification approach and taxonomy is valuable because it provides insights on the features of digital assets, it introduces a new framework on how to categorize them, and it provides baseline definitions for each category and relevant assets and instruments. And this can reinforce a category approach plus a use-case-driven approach.

The framework recommended to the CFTC GMAC is aimed to help policymakers and market participants to really effectively engage and collaborate together as these markets continue to innovate and evolve. It has taken much effort, and I do want to recognize and thank Allison and Sandra Ro and the team, and a special thank you to BCG for helping us incorporate all the voices that emerged after significant discussions and came to a final agreement.

And we can move forward to the next slide, which basically has the final buckets and move forward. Thank you to everyone.

MS. HONG: Great, thank you very much for the presentation. I understand this taxonomy is the culmination of a lot of discussion, discourse and represents the views of the subcommittee, so I really appreciate you taking the lead and putting in the time to bring this recommendation to bear.

With that, we'll open up to the GMAC for questions and comments.

Dave Olsen from FIA PTG.

MR. OLSEN: Yeah, I echo Amy's comments. Also, it's a big undertaking. And as I was reading through it, maybe the part that I would have found the most difficult is coming up with a succinct definition of a digital asset. And in thinking about the way that you've described that definition, I'm wondering, because so many financial assets are native digitally now, how have you drawn the perimeter around what I know you're talking about versus what you probably don't want to be? For example, where would U.S. dollars held digitally at the Fed fail in the prongs of the definition or digitized Apple stock held at the DTCC? And how do you avoid not capturing everything in that net?

MS. KAUL: Thank you for the question. These are the kinds of debates that we've had a lot of, as you can imagine. I think that the key part --

if we can go back to the very first page that had the definition of the digital -- that one, yeah -- I think the key here is that the electronic record is uniquely identifiable, right, and that it is something that is controllable, and that it does not simply represent a book or record entry, right? So a digital dollar on the Fed's balance sheet would be just an entry, right? It doesn't necessarily exist as a transferable item. That would become more of a central bank digital currency offering or a type of tokenized dollar if they wanted to issue a dollar, which would be really a retail type of offering, a retail central bank digital currency. But if it's simply sitting on the records of the Fed, it's really just an internal book and record entry. That's how we started to think about it.

And as for the Apple stock, you know, the Apple stock being tokenized, that would be a unique record, but typically, the entire set of Apple stock would either be tokenized or that Apple stock would be wrapped in a different instrument, which would be a financial instrument, which we've captured under our financial token category.

MS. HONG: Chris Zuehlke from DRW Cumberland.

MR. ZUEHLKE: Thank you for that.

Well, while I'm on the Digital Asset Committee, I'm not on the Taxonomy Committee, but I've spent a lot of time thinking about this problem. I just wanted to share a comment. I think the next slide, the one with the variables, yeah, what I found particularly challenging with this exercise was the programmatic abilities of assets now. And as a result, the dimensionality of what a digital asset can be is -- I don't want to use the word infinite, but it's rather profound. And so when you kind of frame your thinking around how to define and how to introduce a taxonomy, you're kind of introduced with a very unbounded problem.

And for me, kind of the critical approach was to recognize the unbounded nature and introduce the variables that you could use to characterize each of the differentiating features. So I think this framework that we're looking at here, while it's not necessarily ultimately complete given the pace at which the evolution is taking place, it gives us an extendable framework to introduce the characteristics to define how we look at each individual digital asset as the kind of innovation continues over time. So I'm rather supportive of this approach.

MS. HONG: Thanks, Chris.

Are there any other questions or -- Chris Childs from DTCC. And then we'll go to you, Angie, next.

MR. CHILDS: Thank you. I just have one question, you know, given this conversation. It's definitely going to evolve over time, and this is a great start, so very supportive. Did the committee put any thought towards ownership, maintenance, governance of the next steps?

MS. KAUL: Yeah, we're going to outline our future approach in a roundtable at the end here. But yes, this is why we keep trying to emphasize that this is the start. We couldn't start to apply any of our recommendations to just a generalized amorphous concept of a digital asset. I think that what Diana had said about you needing the classification and the use case together to look at whether or when or if regulation needs to apply was a starting point. So from here, we'll talk about it a little bit later, but we're going to get now into the details around how you should be thinking about or how we are thinking about all of these different types of assets and where and in what use cases might there needs to be some reevaluation.

MS. KARNA: Thank you. Diana, the paper and the presentation were really impressive, and for those of us -- and you can tell that a lot of work went into that. For those of us who were not on the subcommittee, can you maybe share one area that cause the most discussion and how you resolved it?

MS. BARRERO ZALLES: I think stablecoins were a matter of conversation, the implications. And across the board across the entire paper, every single phrase in many ways, every single word choice can have implications on how the financial institutions or key stakeholders, crypto firms would be regulated. So there was a very meticulous back-and-forth on how each -- and also because we're coming up with definitions, word choice, like Caroline opened, is very, very important.

But I could also defer it to Ninad from BCG, who really took a part in compiling all the voices together. If there's anything you'd like to add, please go ahead.

MR. NIRGUDKA: Nope. I think, Diana, you captured that very well. If one area of the report came to mind, it would be stablecoins, but I think nearly every single word in this document was meticulously reviewed by the subcommittee, and I think it's just a testament to how involved all of the members were and that it was indeed a consensus-driven document representing the views across the full value chain.

COMMISSIONER PHAM: I want to echo the comments of the subcommittee and GMAC leadership in what a tremendous effort this was to really have such a truly diverse set of both traditional and digitally native participants. And I think that the quality of the output is, again, also tremendous, particularly given the socialization and the feedback from not just the members, many of which are global, but also, as I understand it, from international organizations and regulatory counterparts all around the world. So this is something that has been definitely very pressure-tested, so I appreciate that.

What I found very compelling about some of the slides from the presentation were the ones that provided an overview in particular of the financial digital assets, as well as the alternative digital assets, and then the crypto assets, AKA crypto currencies, and also the functional digital assets and the settlement controllable electronic records, which I think is where much of the efficiency from the use of blockchain technology could be presented. But it should be understood that that is an electronic recordkeeping function.

So I was wondering, with the time that we have, it would be possible to have a presentation on the greater detail in those categories if that would be possible.

MS. BARRERO ZALLES: If we go to the annex, I'm happy to walk us through it. The first bucket -- one slide before? Yes, there we go.

COMMISSIONER PHAM: This part could be fast because I think people understand this part. There's been a lot of attention --

MS. BARRERO ZALLES: Yeah.

COMMISSIONER PHAM: -- on this part. But the other ones were particularly interesting to me.

MS. BARRERO ZALLES: Yeah, this part is more relatable because of the money and money-like -- one thing I'd like to highlight first is the importance of having a role of being a reliable store of value, medium of exchange, and unit of account.

Now let's move to the next one.

Then we have financial digital assets, and typical use cases, again, would play a role of financial investments, financial returns, and access to capital markets. We've divided those into security and other financial instruments and derivatives. And within each two of those categories, there's a version of a tokenized security or tokenized derivative on the other hand, or a security token and derivative token. Feel free also, Caroline and Sandy and Adam, if you'd like to add anything. But the tokenized version would be a digital twin token, and then the actual token would be a digital native version of the either security or derivative.

Then moving to the next bucket.

We have alternative digital assets, which are representations of an interest in a good or a non-financial asset. And here again, we have a tokenized alternative asset definition, which again points to a digital twin token that represents an interest in, entitlement to, or claim on an alternative or non-security asset or claim on the -- and you can see the definition itself.

One thing important to note is certain activities that may be performed on a tokenized non-financial asset, this classification category may change. The innovation is still taking place and developing.

The next bucket would be crypto assets where we've basically merged together the concept of crypto assets and cryptocurrencies under a similar concept where typical use cases, obviously from a network-specific medium of exchange, unit of account, or transaction fees. These could be speculative investments and branded forms of a store of value. And this category includes some of the first use cases of crypto assets, Bitcoin, Ethereum. They're platform-based. They're nonredeemable. And again, a lot of this points to the features that I explained above and how they're combined in different ways to produce different kinds of digital assets.

And then the other crypto assets which could be, again, nonredeemable digital native tokens, no rights conferred against the issuer, and they could be used as speculative investments. And, again, not -- as all crypto assets, they're not pegged to a reference asset from an external point of view, and they don't represent ownership or other legal claims against a company or other type of issuer. And they're also not guaranteed by a regulated financial institution.

And then if we go forward, yeah, we have functional digital assets where this points a lot of time to the governance or access to a specific form of infrastructure, an app, a specific functional utility to gain access to a network. These functional digital assets are digital tokens that cannot be exchanged for value issued. And they provide the owner of the token with a specific utility such as application, specific governance rights, voting, decision-making authority, and record of entitlement, right to rewards or revenue from a specific application or community. And again, the definitions are there, just want to walk through. Again, here is also an area where we expect the ecosystem continuing to evolve and more innovation is taking place.

The next bucket would be settlement tokens under the bucket of settlement, controllable electronic records. The main concept would be tokens that allow digital recordkeeping for the facilitation of financial transactions, the concept of facilitating settlement through a token.

MS. KAUL: Yeah, I was just going to add, I think, you know, to your point you were bringing out, Commissioner Pham, breaking down the assets in the four categories that you mentioned, right, the security, the financial instruments, the crypto assets, the asset-backed tokens or the asset-related tokens, and the functional digital assets is critical because there has been a complete conflation in many instances between these four categories of assets.

And this is, again, where having this classification is going to help because each of those categories have very distinct use cases, right? And so, you know, having the classification break them out and then being able to match that with the use case is what is going to give us this ability to say, you know, this is clearly something that is not any kind of financial asset, or this is clearly something that is a financial asset, or there's uncertainty here and more investigation needs to happen.

But if we, you know, tried to treat everything that rides on blockchain rails and can be traded through unregulated exchanges as the same type of asset, we then are doing a disservice in trying to really think about how they should be considered for potential regulation because they all are really quite different when you get under the covers and think about how they're utilized.

MS. BARRERO ZALLES: I want to highlight as well the importance of a use-case-driven approach once again, and that's why we start every definition of every major category with typical use cases to provide examples.

COMMISSIONER PHAM: And I find the use-case-driven approach particularly helpful because part of what I've been doing in looking at this and looking at different jurisdictions approaches to this is to focus on some of the real economy use cases. What are people actually doing with these things? What are they for? And why is it important to distinguish between commercial activities and financial activity?

So, for example, with the functional digital assets, it seems to me that this would include loyalty programs or reward programs or customer engagement networks for brands, maybe entertainment. So could you tell us a bit more about some of the current use cases around functional digital assets? Because I think this is where a lot of the innovation is happening as well, which is very interesting.

MS. BARRERO ZALLES: Exactly. A lot of the innovations -- and we've seen in previous taxonomies the concept of utility tokens and how that has evolved, a lot of that concept, through access to a network to be able to have a right to certain rewards that are provided through tokens in many different formats. That can range from anything, rewards, revenue streams, access to participate in a game or in a network. It can be anything.

COMMISSIONER PHAM: So airline miles, hotel points, my favorite coffee place, that's under rewards.

MS. KAUL: I mean, if you think about it, we all buy tickets on Ticketmaster today, right? And that ticket that sits in your wallet from Ticketmaster, in a sense, is a functional digital asset. If that was being issued on a blockchain, that asset would absolutely fit into this definition.

COMMISSIONER PHAM: Thank you. I appreciate that. And I think we have a couple more minutes for this session. So really quickly -- and I think the other area where there's a lot of examination of the efficiency for infrastructure is in the settlement tokens space. So is this really, as I understand it, to be modernizing kind of the pipes and plumbing of clearing settlement and post-trade processes?

MS. BARRERO ZALLES: Yes, exactly that. So it's moving from COBOL mainframes into something more modern. And we're making the distinction on purpose because that's where it's a true technology play versus the creation of a new asset per se.

COMMISSIONER PHAM: Thanks. I think that's very helpful as well because there has been a lot of confusion around some of these different use cases. And so I think this is the one where it's really -- if we were upgrading our technology from paper to electronic records and now if it's a digital token, it's just still a technology upgrade.

MS. BARRERO ZALLES: Absolutely.

COMMISSIONER PHAM: Great, thank you.

Darcy?

MS. BRADBURY: Yeah. Long day. I want to go back to the actual proposed recommendation for a minute. I don't know if that's possible to do on the screen. I have no idea where it is in the presentation.

But in talking -- I'm just so not a digital native as the phrase goes. But in talking with people about this who also don't spend as much time in this field as some do, one of the things that struck me about the resolution of the presentation was the idea, the acknowledgement upfront that this is going to need to be updated and adapted. And so you're not suggesting this is the taxonomy that lives for all time, but that it's a way to begin to create common, you know, terminology, so you can start talking about the same things, right? So I guess that's how I, you know, as a non-digital native, got more comfortable with this recommendation. And so I just wanted to make sure that others had seen that was sort of literally embedded in the language.

MS. BUTLER: Yeah, I think that's exactly it. And I'll borrow Chris's term. It's a framework, right? And it provides a way for us to have common language, but more importantly, a common framework by which we can acid-test various different scenarios, and we can come to then the right outcome. Because of the nebulous terms that exists today and that conflation that Sandy talked about, it's very important to have something that we can actually run through that framework and say, okay, yes, this actually is -- whether it's a digital asset or, to Dave Olsen's point, it could just be digital representation of something. And we can actually rule it in or out from there, and I think that's very important. So it just gives us some common standards and frameworks to work from.

MS. HONG: Great, thank you. If there are no further questions or comments, is there a motion from the committee to adopt this recommendation and submit the recommendations to the Commission?

MR. FARKAS: Yes, I'd like to move it.

MS. HONG: We've got a motion. Do we have a second?

MALE SPEAKER: I'm happy to second.

MS. HONG: Thank you. It has been moved, and it has been seconded.

Are there any additional questions or comments before we move on to vote?

[No response.]

MS. HONG: All right. The motion on the floor is for the GMAC to adopt the Digital Asset Markets Subcommittee's recommendation and submit it to the

Commission for consideration. A simple majority vote is necessary for the motion to pass.

And with that, I will turn it over to the DFO to conduct a vote.

MR. JUNG: Thank you, Chair Hong.

Committee members in agreement, please raise your hand and say aye.

[Hands raised.]

MR. JUNG: All right. Thank you. And those who are virtual, please put your hands down. That would be helpful. Thank you.

All right, in disagreement, please raise your hands and say nay. All right. And abstentions? Chair Hong, the ayes have the votes (twenty-two yes votes, zero no votes, and six abstentions).

MS. HONG: Great, thank you. The ayes have it, and the motion carries. The Digital Asset Markets Subcommittee's recommendation regarding digital asset taxonomy has been adopted by the GMAC and will be submitted to the Commission for consideration.

Thank you very much for the recommendation and all of the work that went into it, really appreciate it.

MS. BRADBURY: And now in our couple of remaining minutes, I was hoping we could ask the leadership of the subcommittees to comment on things you're working on that you hope may be ready for our next meeting. I don't know if anybody is prepared to preview their agenda. Please.

MS. KAUL: I'll just keep going since we were just talking, kind of complete our presentation. So we have several workstreams within our subcommittee, and we will be coming with recommendations from additional workstreams in the future. We anticipate having in the next few months recommendations from our non-fungible token workstream and our utility work stream.

We have a lifecycle workstream that is looking at the pre-trade, trade, and post-trade lifecycle. That is where the use cases and the classification that we just presented will be most, I think, helpful in helping us to identify where we think recommendations would apply. And that will become much more detailed, and we will start to build out under some of these classification types additional taxonomy and additional recommendations.

And then finally, we have an Infrastructure Committee. And we want to really, I think, draw attention to this idea that there are new technologies that are coming in to use that may really start to transform the financial market infrastructure over the next decade or more, and we're seeing experimentation with these technologies becoming more and more widespread. And yet, there's still a lot of confusion about these technologies as well. When you think about a term like a wallet, right, a wallet can mean many things in today's world. Even common definitions that most people here would feel that they understand like custody actually means something very different when you start to talk about this new infrastructure.

So what we are also going to bring to the committee over time is a set of recommendations about how to think more broadly about the infrastructure and some of the use cases that might be enabled because of this new technology and how that might apply. And some of the easiest ones that come to mind to think about is the potential for 24/7, 365 trading using these technologies, or the potential to think about new solutions around KYC, AML using these technologies.

So we're going to have a set of recommendations or areas for further exploration around the technology infrastructure, around the asset types and the lifecycle where we will put, based on use cases, the need for discussion or recommendations. And then finally, we will continue to build out this taxonomy itself so that all of the underlying definitions that will really help inform the use cases become part of this living document so that it can continue to be really used as a reference and framework for those all around the globe thinking about these same issues.

MS. BRADBURY: Thank you. And we certainly heard that from the FSB this morning when they talked about their workstreams as well.

I don't know, Michael, if you have --

MR. WINNIKE: Sure. Thank you very much. So we've had two excellent panels now on the Basel III Endgame. And while there's already a clear sort of call to action, we think that there would still be benefit from putting the recommendation down in writing. So there's a lot of enthusiasm in the Market Structure Subcommittee for a Basel III Endgame/G-SIB surcharge recommendation focusing on the impacts on derivatives markets and clearing.

That's the only recommendation where we've actually commenced work, and we, you know, are seeking to deliver it. There are other areas we're exploring though, so continuing the conversation around the universe of eligible collateral and going beyond what requires simply a clarification of the existing rules to potentially calls for new rulemaking to look at things like, as we mentioned, corporate bond ETFs. We'll make sure we're not getting too much into the turf of the Digital Assets Subcommittee, but thinking about potentially tokenized assets, and so there's kind of discussion around what we might put together in that context.

And then also the opportunities to look at open IOSCO consultations, particularly around margin and collateral and transparency and whether or not we'd be well-suited to put forward a recommendation for the CFTC in that regard. Thank you.

MS. BRADBURY: And on the technical issues?

MS. KIRBY: Thanks very much. We do have a couple of things we're keeping our eye on and wanted to let folks know we're beginning and commencing work on. The first is the trade reporting working group has taken note of the lingering inconsistencies in the global use of identifiers, universal trade identifiers or product identifiers, and related data standards, and are thinking about a recommendation that would ask the CFTC to leverage its leadership role in the global CPMI-IOSCO work to try to drive more consistency and standardization, specifically focusing on the consequences of impairing data quality and hindering the ability to aggregate. So that work is underway and would likely be coming up for a recommendation.

Separately, we have a post-trade process and a separate group on cross-border infrastructure. And both of those groups are keeping an eye on an IOSCO report on the working group of margin requirements. Perhaps there's some overlap. But specifically, we're thinking of some recommendations of a report encouraging improved use of collateral management and efficiencies that can be found through standardization. So I think the goal there would be possibly by July on the back of that work develop further some more finite recommendations for adoption.

We do have some other working groups, one on market events that has considered whether a compendium or a document that could be used to help where there's potential intersection with the U.S. debt ceiling again, knowing that that caused a lot of angst in its buildup and other preparation elements or ways we can streamline communication from exchanges or others just so we don't have constantly recurring panic. That's a possibility.

A related topic is maybe a similar type document or use compendium for unexpected market closures more generally, not specific to the debt ceiling. So that's the report from the Technical Issues Subcommittee.

MS. HONG: Great, thank you so very much.

And I would just like to say, you know, a big thank you to everybody for a very full day and, you know, one where we've covered quite a bit of ground in a substantive fashion with, you know, very good discussion. And so, you know, many thanks to the GMAC, subcommittee co-chairs, the subcommittee members because there was a tremendous amount of work that went into preparing for today, and, of course, to Commissioner Pham and staff for convening this group where we've had the opportunity to discuss, you know, such a wide range of important topics to global derivatives markets.

COMMISSIONER PHAM: And for the final closing remarks, I just think the big takeaway from today is that the GMAC's work is having a real impact on the policy approach to developing pragmatic solutions to address the most significant issues in global markets. I have shared the GMAC's recommendations to promote the resiliency and efficiency of global markets with international standard-setters and regulatory counterparts around the world, and there has been great interest in the GMAC's work since it is so aligned with key international priorities of the FSB and IOSCO, as you heard earlier today. I hope that the GMAC recommendations can be considered as part of key international working groups and task forces.

Also, I'd like to recognize that the GMAC's work is having an impact at the CFTC already. So, for example, the two recommendations from the Technical Issues Subcommittee as it relates to swap data reporting and enhancing the data quality and utility was taken into account in our recent proposal in December. And I appreciate that the GMAC submitted the recommendations to the comment file on that proposal as well.

And for the Global Market Structure Subcommittee, there has been a great deal of engagement with the CFTC staff on some of the very live issues, including the swap blocks and cap thresholds effective date.

And also, I think that there are great opportunities where it's really low-hanging fruit. We should be aligning and doing harmonization with other U.S. agencies like the SEC, and so it's my hope in discussing with the chairman and as we work through those details that we will be able to have a rule proposal that will address the SEC-registered clearing agencies as permitted counterparties for repo, which will help to improve the resiliency and liquidity in repo and funding markets.

So everything you are doing makes a difference, as I said earlier today, and I want to thank you all so much for all of your efforts.

MR. JUNG: All right. Thank you, Commissioner Pham, Chair Hong, Chair Bradbury. The meeting is now adjourned. Thank you very much, and safe travels. Thank you all.

[Whereupon, at 3:00 p.m. EST, the meeting was adjourned.]