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American Bankers Association
ABA Securities Association
ABASA, an ABA subsidiary

July 29, 2016

The Honorable Jacob J. Lew
Secretary
Department of the Treasury
1500 Pennsylvania Ave., NW
Washington, DC 20220

The Honorable Janet L. Yellen
Chair
Board of Governors of the Federal Reserve System
20th Street & Constitution Ave., NW
Washington, DC 20510

The Honorable Martin Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

The Honorable Thomas J. Curry
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

The Honorable Mary Jo White
Chair
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

The Honorable Timothy J. Massad
Chairman
Commodity Futures Trading Commission
1155 21st Street, NW
Washington, DC 20581

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Federal Housing Finance Agency
Constitution Center
400 7th St, NW
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Farm Credit Association
1501 Farm Credit Drive
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Ladies and Gentlemen:

The American Bankers Association (ABA)[1] and the American Bankers Association Securities Association (ABASA)[2] appreciates the efforts of the U.S. regulators to coordinate the U.S. implementation of the final margin rules for non-centrally cleared derivatives with foreign jurisdictions, especially with the European Union (EU) and Japan. The European Commission's

[1] The American Bankers Association is the voice of the nation's $16 trillion banking industry, which is composed of small, regional, and large banks that together employ more than 2 million people, safeguard $12 trillion in deposits, and extend more than $8 trillion in loans.

[2] The ABA Securities Association is a separately chartered affiliate of the American Bankers Association, representing those holding company members of the American Bankers Association that are actively engaged in capital markets, investment banking, swap dealer and broker-dealer activities.

(EC) decision to delay the implementation of the EU's margin rules is disappointing, as the alignment of both the substance and timing of margin rules across jurisdictions has appropriately been a priority of the international regulatory community.[3] Nevertheless, the original considerations that warranted international coordination of these rules still hold, and they should persuade U.S. regulators to act to prevent U.S. banks from facing the types of implementation challenges and competitive disadvantages that they sought to avoid through international coordination. We therefore request that U.S. regulators take steps to resynchronize the U.S. implementation schedule with the schedule anticipated to be adopted in the EU.

If the compliance dates of the margin rules are not aligned, there will undoubtedly be dislocations in the global swaps markets. For example, counterparties may choose to minimize the costs of the margin rules by executing swaps with swap dealers that are not subject to margin rules (i.e., avoid trading with swap dealers subject to the U.S. margin rules).[4] The resulting anomalies will lead to financial harm to U.S. swap dealers and a corresponding reduction in liquidity for all swaps market participants. Without appropriate action, bifurcation between the U.S. and EU markets can be expected to begin on September 1, 2016, as EU-based swap dealers choose to avoid margin requirements by hedging solely in the EU inter-dealer market. This unwelcome market distortion will become more acute as variation margin requirements become effective on March 1, 2017, when non-dealer counterparties will be able to avoid margin requirements by trading with EU-banks not within the scope of the U.S. rules.

Additional burdens will be placed on U.S. banking organizations as they make business adjustments against unknown standards, since they do not yet know what the EU rules will ultimately require. Moreover, the EC's decision will require firms to reallocate resources to modify systems and documents that were previously prepared to account for the combined application of U.S. and EU rules.

We fear that a failure to realign the margin rules' implementation will disadvantage U.S. banking organizations and lead to operational, regulatory, and implementation problems. However, these challenges are avoidable if the U.S. Regulators and EU work together to resynchronize the implementation schedule.

If you have any questions or need further information, please contact Jason Shafer at (202) 663-5326 (email: jshafer@aba.com) or Cecelia Calaby at (202) 663-5325 (email: ccalaby@aba.com).

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[3] *See* Final Policy Framework for Margin Requirements for Non-Centrally Cleared Derivatives, Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO), *available at* http://www.bis.org/bcbs/publ/d317.pdf.

See also Commodity Futures Trading Commission Chairman Timothy Massad stated, "The importance of international harmonization cannot be understated. It is particularly important to reach harmonization in the area of margin for uncleared swaps . . . ." Opening Statement of Chairman Timothy Massad, Open Meeting on Proposed Rule on Margin Requirements for Uncleared Swaps and Final Rule on Special Entities, Sept. 17, 2014, *available at* http://www.cftc.gov/PressRoom/SpeechesTestimony/massadstatement091714.

[4] *See* International Swaps and Derivatives Association's Request for Delay of Swap Margin Requirements Letter (Appendix A), dated June 24, 2016.

Respectfully Submitted,

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