**Joint Release**

**Board of Governors of the Federal Reserve System**
**Farm Credit Administration**
**Federal Deposit Insurance Corporation**
**Federal Housing Finance Agency**
**Office of the Comptroller of the Currency**

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# Agencies Finalize Swap Margin Rule

Five federal agencies have issued a final rule to establish capital and margin requirements for swap dealers, major swap participants, security-based swap dealers, and major security-based swap participants regulated by one of the agencies ("covered swap entities"), as required by the Dodd-Frank Act.

The final rule, issued by the Farm Credit Administration (FCA), the Federal Deposit Insurance Corporation (FDIC), the Federal Housing Finance Agency (FHFA), the Federal Reserve, and the Office of the Comptroller of the Currency (OCC), establishes minimum margin requirements for swaps and security-based swaps that are not cleared through a clearinghouse. The margin requirements help ensure the safety and soundness of swap trading in light of the risk to the financial system associated with non-cleared swaps activity.

The margin requirements mandate the exchange of initial and variation margin for non-cleared swaps and non-cleared security-based swaps between covered swap entities and certain counterparties. The amount of margin will vary based on the relative risk of the non-cleared swap or non-cleared security-based swap. The requirements are intended to reduce risk, increase transparency, and promote market integrity.

Following a law passed by the Congress in January 2015, the rule would not apply to swaps of small banks, savings associations, Farm Credit System institutions, and credit unions with $10 billion or less in total assets that enter into swaps for hedging purposes and meet the exceptions that are available to these small institutions from the requirement to clear standardized swaps through a clearinghouse. The non-cleared swaps of certain financial cooperatives that hedge or mitigate risks associated with originating loans for their members are also exempt from the initial or variation margin requirements of the final rule. In addition, the rule does not apply to swaps entered into by commercial end users for purposes of hedging commercial risk.

The final rule is generally similar to the proposed rule issued by the agencies in September 2014 and includes some modifications that were made in light of comments. For example, the agencies have modified the treatment of inter-affiliate swap transactions. The final rule will still require a covered swap entity to collect initial margin from its affiliates, but will not require the posting of initial margin. Instead, a covered swap entity would calculate the amount that it would have been required to post to an affiliate and provide that information to the affiliate on a daily basis. The agencies believe that these changes will promote the safety and soundness of covered swap entities, make the resulting risks transparent to affiliated counterparties, and incentivize strong risk management.

Staff of the five agencies consulted with staff of the Commodity Futures Trading Commission and the Securities and Exchange Commission in developing the final rule, as required by the Dodd-Frank Act.

The final rule will phase in the variation margin requirements between September 1, 2016, and March 1, 2017. The initial margin requirements will phase in over four years, beginning on September 1, 2016.

Additionally, the agencies also issued an interim final rule relating to the rule's exemption from margin requirements for certain non-cleared swaps and non-cleared security-based swaps used for hedging purposes by commercial end-users and certain other counterparties. The regulation was issued as an interim final rule, as required by the law passed by the Congress in January 2015. The public is invited to submit comments on the interim final rule through January 31, 2016.

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Media Contacts:

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| FCA | Christine Quinn | (703) 883-4056 |
| FDIC | Barbara Hagenbaugh | (202) 898-7192 |
| FHFA | Stefanie Johnson | (202) 649-3030 |
| Federal Reserve | Eric Kollig | (202) 452-2955 |
| OCC | Bryan Hubbard | (202) 649-6870 |