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## U.S. House of Representatives

### Committee on Agriculture

Room 1301, Longworth House Office Building

Washington, DC 20515-6001

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July 17, 2015

The Honorable Kenneth A. Spearman  
Chairman  
Farm Credit Administration  
1501 Farm Credit Drive  
McLean, VA 22102-5090

Dear Chairman Spearman:

We are writing today to highlight an issue regarding the proposed rulemakings on margin and capital requirements for uncleared swaps and security-based swaps ("proposed rules"). Under the proposed rules, transactions between affiliated counterparties that are used to transfer risk within a consolidated business group would require posting of initial margin. We are concerned that this requirement may reduce liquidity and increase costs for end-users, without significantly reducing the systemic risk posed by financial institutions.

These transactions, often referred to as "internal risk management transactions" (IRM transactions), enable global financial institutions to centralize their risk management functions, thus increasing internal efficiencies for the firms and reducing trading complexities for their customers. IRM transactions enable financial institutions to provide customers with a single, client-facing entity for transactions, simplifying regulatory compliance for bank customers.

We are concerned that if affiliated entities are required to exchange initial margin on these types of transactions, additional costs could be passed on to a bank's uncleared swap customers, often end-users, without making these trades safer. For example, these costs could be transferred explicitly in the form of higher fees, or implicitly in the form of fewer counterparties resulting, in higher trading spreads.

We find it possible that requiring initial margin to be posted for risk-management transactions between affiliates will introduce a new counterparty risk between the affiliates and their third party custodial bank. We also urge you to consider how such a requirement could lock up a significant portion of an institution's working capital.

Finally, we are equally concerned that a requirement to post and segregate initial margin may be unique to American rules and could be inconsistent with the regulatory approaches of our counterparts in Europe and Japan. We encourage you to consider what effect such a rule would

have on broader efforts to harmonize derivative rules internationally. Failing to coordinate and harmonize on these rules would put U.S. institutions operating abroad at a disadvantage compared to their global peers, and limit liquidity and choice for U.S. end-users.

Internal risk management transactions are necessary for global financial institutions to manage their risk profile and enable banks to provide cost-effective services to their clients. Requiring affiliates to post initial margin on these transactions will disincentivize the use of this important tool and push higher transaction costs onto end-users.

Please provide the Committee on Agriculture with an assessment of the impact of the proposed rule on derivatives end-users, including any potential increased costs or loss of liquidity, and the impact on financial institutions, including any potential international competitive disadvantage that banks may face. In addition, as the final rule is prepared, we request that you consider an exemption for IRM transactions from the requirement to post and segregate initial margin, where consistent with the goal of reducing systemic risk.

Please provide a response to the concerns raised in this letter by July 31, 2015.

Sincerely,

  
K. Michael Conaway  
Chairman

  
Collin C. Peterson  
Ranking Member

cc: The Honorable Thomas J. Curry, Chairman, Office of the Comptroller of the Currency  
The Honorable Martin J. Gruenberg, Chairman, Federal Deposit Insurance Corporation  
The Honorable Timothy Massad, Chairman, United States Commodity Futures Trading  
Commission  
The Honorable Janet L. Yellen, Chair, Board of Governors of the Federal Reserve  
System  
The Honorable Melvin L. Watt, Director, Federal Housing Finance Agency