

**Meeting Between Staff from the Prudential Regulators and
the Global Pension Coalition
February 3, 2015**

Participants (either in-person or by phone):

Sean Campbell, Anna Harrington, and Victoria Szybillo (Federal Reserve Board)

Ang Middleton and Kurt Wilhelm (OCC)

Jacob Doyle, Thomas Hearn, and Rob Hendricks (FDIC)

Peggy Balsawer, Bob Collender, Tom Joseph, and Julie Paller (FHFA)

Richard Katz and Tim Nerdahl (FCA)

Jim Harshaw (General Motors Investment Management Corporation); Maureen Donley & Graham McCall (Skadden, Arps, Slate, Meagher & Flom); Deborah Forbes (Committee on the Investment of Employee Benefit Assets); Kent Mason (American Benefits Council); Greg O'Donohue (Pension Investment Association of Canada); Bella Sanevich (NISA Investment Advisors).

Summary: The Global Pension Coalition and certain of its members (the "Representatives") met with staff from the Federal Reserve Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency and the Farm Credit Administration (the "Prudential Regulators") to discuss issues related to the proposed rule issued by the Prudential Regulators on margin requirements for covered swap entities under Title VII of the Dodd-Frank Act.

Among matters discussed in the meeting were the nature of pensions and pension plans and the Representatives' views on certain aspects of the proposal, including: the definition of "affiliate," the legal and operational challenges of documenting the enforceability of master netting agreements; broadening the set of collateral eligible for variation margin; transparency to end-users of models for determining initial margin requirements, and phase-in of compliance dates. A presentation provided by the Representatives that describes these issues in greater detail is attached.

Attachment

GLOBAL PENSION COALITION

February 3, 2015 Meetings with US Regulators to Discuss Uncleared Margin Proposals

November 24, 2014 Comment Letter – Main Points

- Pensions never should be required to post initial margin.
 - Pensions provide a crucial source of stable, risk-reducing liquidity to the derivatives markets because they are highly creditworthy and liquid counterparties, operating with little to no leverage.
- "Affiliate" for purposes of counting towards a pension's MSE should be limited to only those pension affiliates to whom a dealer would have recourse under the trade.
 - Consistent with MSP definition.
 - Otherwise, unduly burdensome compliance obligation to monitor all affiliates, including collective investment vehicles that a pension "controls" through 25% ownership, or pension sponsors that appoint a trustee or investment advisor.
 - The affiliate definition fix also would enable pensions to continue using trustees as third-party custodians, consistent with ERISA and current CFTC and SEC policy.
- The multi-jurisdiction enforceability requirement for third-party custodian agreements is legally impractical.
 - Too many competing principles of law across jurisdictions could give rise to a claim of breach, meaning a legal opinion never would be clean.
- Variation margin collateral should include government securities, and initial margin collateral should include CDs and money-market funds.
 - CDs and money-market funds more liquid than gold, which is currently allowed.
- Treasury-exempt FX forwards and swaps, as well as FX spot, should be explicitly excluded from the MSE calculation.
 - Including these products for purposes of counting is directly at odds with Treasury's determination that margin rules do not apply.
- The proposals should be consistent in requiring two-way margin for smaller plans.
 - Either no requirement at all (like current CFTC proposal), or provide ability to request two-way.
- Pensions (particularly large plans to whom initial margin will be posted) should be able to play a role in selecting initial margin calculation methodologies.
 - At a minimum, dealers should be required to obtain consent when calculating an amount under an internal model that is higher than under the table-based approach, and the methodology should be applied consistently.
- Phase-in should not apply to pensions until at least December 2019, the latest deadline proposed, regardless of when a pension breaches the applicable exposure level.
 - Alternatively, any final rule should allow for a simple written status representation to avoid data confidentiality issues that would arise with a CSE needing to know a non-CSE's counterparty positions.