November 3, 2016

Mr. Mark Carney, Governor of the Bank of England
Chair, Financial Stability Board (FSB)

Mr. Mario Draghi, President of the European Central Bank
Chairman, Group of Governors and Heads of Supervision (GHOS)

Mr. Stefan Ingves, Governor of Sveriges Riksbank
Chairman, Basel Committee on Banking Supervision (BCBS)

Bank for International Settlements
Centralbahnplatz 2, CH-4002, Basel, Switzerland

RE: Treatment of Cleared Client Initial Margin in the Leverage Ratio

Dear Chair Carney, Chairman Draghi and Chairman Ingves,

We strongly urge you to carefully consider the impact of the leverage ratio on the strength and stability of the global derivatives markets. We believe that the leverage ratio, as presently constructed, has certain unintended consequences that will make the financial system more fragile, severely undermine the global efforts to bring more derivatives in central clearing, and seriously impair the ability of end-users in the real economy to hedge their market risks.

Overstated Exposures

The leverage ratio is designed to require banks to hold capital against actual exposures to loss, yet the current construct fails to consider existing market structure explicitly designed to mitigate such exposures. Unlike making loans or taking deposits, guaranteeing client trades exposes the bank to losses only to the extent that the margin collected is insufficient to cover the clients' clearing obligations. To make sure that margin is available to absorb losses, it is posted in the form of either cash or extremely safe and liquid securities and the majority of the margin is then passed on to the CCP. Furthermore, there are strictly enforced rules to ensure that client margin is available for the limited purpose of guaranteeing the customers' trades and is therefore segregated away from the bank's own money, if not completely outside of the bank's control. If the Basel Committee would like further restriction on client segregated margin, we would support further conditions for client segregated margin or a limited recognition so that only that money that goes to the CCP may be recognized under the leverage ratio. Given that the existing leverage ratio framework provides recognition of the exposure reducing effect of client segregated collateral for Securities Financing Transactions where banks act as agents on behalf of customers, the idea of applying restrictions on the ability to take recognition of client segregated initial margin would not be novel.[1]

Increase Systemic Risk by Raising Barriers to Porting

One of the essential attributes of central clearing is the ability for customers to move their positions and their collateral out of a clearing firm at any time. This is more than a matter of customer choice. When a clearing member is in distress, customers must have the ability to swiftly and securely move their positions and their collateral to another clearing firm. This is what allows for continuity in the functioning of cleared derivatives markets in spite of the failure of one or more major clearing firms, as we all saw during the crisis of 2008. The leverage ratio, however, substantially changes the economics of clearing and dramatically increases the risk that the porting process will fail thereby intensifying the procyclical pressure on markets. We are deeply concerned that clearing members subject to the leverage ratio will be reluctant to acquire client positions from a failing clearing member, especially in times of system-wide stress, because the ported clients' segregated margin would increase the clearing member's capital requirements at a time when firms would already face capital and liquidity challenges. Without the ability to transfer client positions in an orderly manner, the clearinghouses will be forced to liquidate customer positions, intensifying market stress at exactly the wrong moment.

Access to Clearing

We are concerned that left unchanged the leverage ratio will undermine recent financial regulatory reforms by limiting the amount of client clearing banks will conduct, especially for hedgers who result in disproportionately high leverage exposures, thereby reducing access to clearing and limiting hedging opportunities for end users. This will in turn lead to a smaller and less diverse set of clearing participants, as well as higher concentration risk among remaining clearing firms. Effectively, the inability to recognize the segregation of client initial margin in the leverage ratio inappropriately increases the capital cost of client clearing, thereby undermining one of the key tenets of financial reform following the crisis which is to utilize the safeguards of central clearing for standardized derivatives contracts. This harms farmers seeking to manage commodity price fluctuations, commercial firms wishing to lock in prices as they distribute their goods, and pension funds using derivatives to enhance workers' retirement benefits. Thus, the end result of this financial reform by the Basel Committee for Banking Supervision will be to unnecessarily increase prices on commodities for main street consumers of goods created with these commodities.

The negative impacts to the real economy are significant and we strongly encourage the Basel Committee to avoid these risks by revising the leverage ratio to accurately reflect the exposure reducing effect of client margin in the cleared derivatives markets.

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[1] Basel Committee on Banking Supervision: Basel III leverage ratio framework and disclosure requirements, paragraphs 35 -37.

Sincerely,

Carl B. Wilkerson

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London Metal Exchange (LME Clear)

/s/ Stuart J. Kaswell

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APPENDIX A
DESCRIPTIONS OF THE ASSOCIATIONS

The American Council of Life Insurers (ACLI) is a national trade association with 280 member companies that represent 95 percent of industry assets, 92 percent of life insurance premiums, and 97 percent of annuity considerations in the United States. Our members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance that 75 million American families rely on for financial and retirement security. Life insurers manage asset and liability risks through hedging with derivatives, and are among the financial end-users affected by the leverage ratios under consideration in the BCBS Consultative Document on leverage ratio issues. ACLI filed submissions on the BCBS leverage ratio initiative dated July 5, 2016, and September 20, 2013. Life insurers have actively participated in the global dialogue concerning the regulation of derivatives and stable financial markets, including the BCBS initiative on margin for uncleared swaps. *See* ACLI submission dated September 28, 2012 on the BCBS-IOSCO Second Consultative Document on Margin Requirements for Non-Centrally Cleared Derivatives (http://www.bis.org/publ/bcbs226/acoli.pdf , and ACLI submission dated September 28, 2012 on the BCBS-IOSCO First Consultative Document on Margin Requirements for Non-Centrally Cleared Derivatives (http://www.bis.org/publ/bcbs226/acoli.pdf).

AIMA is the trade body for the hedge fund industry globally; our membership represents all constituencies within the sector – including hedge fund managers, fund of hedge funds managers, prime brokers, fund administrators, accountants and lawyers. Our membership comprises over 1,300 corporate bodies in over 50 countries

CCP12 was formed in 2001 and works to further the industry's dialogue on the adoption of best clearing and risk management practices, and supports strategic progress on regulatory harmonisation and the enhancement of global standards. The group frequently invites regulators and representatives from other clearing and settlement organisations, exchanges and marketplaces, financial firms and other industry associations around the world to join its meetings to foster dialogue on issues of mutual interest and concern.

CCP12 is a not-for-profit informal association, with a membership encompassing over 50 individual CCPs from all over the world. CCP12 members meet approximately 6-monthly, as well as working in smaller teams on an ongoing basis to contribute to industry and regulatory developments and advance CCP and risk management awareness generally.

CME Group is the operator of world's largest derivatives marketplace and central clearing infrastructure. Through our exchanges – CME, CBOT, NYMEX, COMEX and CME Europe we offer a wide range of global benchmark products across all major asset classes, including futures and options based on interest rates, equity indexes, foreign exchange, energy, metals, agricultural, and commodities products. CME Group also operates CME Clearing and CME Clearing Europe, which together form one of the largest central counterparty clearing services, providing clearing and settlement services to mitigate credit risk in both listed and over-the-counter derivatives markets.

The Commodity Markets Council (CMC) is the leading trade association for commodity futures exchanges and their industry counterparts including agriculture and energy end-users.

Eurex Clearing is one of the leading central counterparties globally, and assures the safety and integrity of markets while offering innovation in risk management, clearing technology and client asset protection. Eurex

Clearing provides fully automated, straight-through post-trade services for derivatives, equities, bonds and secured funding and financing, as well as industry-leading risk management technologies.

The European Association of CCP Clearing Houses (EACH) represents the interests of Central Counterparties (CCPs) in Europe since 1992. CCPs are financial market infrastructures that significantly contribute to safer, more efficient and transparent global financial markets. EACH currently has 20 members from 15 different European countries. EACH is registered in the European Union Transparency Register with number 36897011311-96.

FIA is a global organization with offices in the US, Europe and Asia. Its core members, many of which are banking organizations, are members of central counterparties. FIA's membership also consists of the major global futures exchanges, clearinghouses, trading platforms, and others that, together, make central clearing possible.

Intercontinental Exchange (ICE) operates the leading network of global futures, equity and equity options exchanges, as well as global clearing and data services across financials and commodity markets.

ISDA has worked to make the global derivatives markets safer and more efficient since 1985. Today, ISDA has over 850 member institutions from 67 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's web site: www.isda.org.

LCH is an international, multi-asset class group of clearing houses, or central counterparties ("CCPs"), that manage risk of many diverse portfolios of cleared derivatives. LCH Group consists of three operating entities: LCH Ltd, the UK entity, LCH SA, the Continental European entity, and LCH LLC, the US entity. Additional detail on the legal and regulatory structure of the Group: http://www.lchclearnet.com/about_us/corporate_governance/legal_and_regulatory_structure.asp.

LME Clear became operational on 22 September 2014 and throughout its first year is successfully demonstrating its robust risk management of the LME market. LME Clear, the clearing house for the LME, was designed and built in consultation with our Members and users of the LME.

The London Metal Exchange is the world centre for the trading of industrial metals – more than three quarters of all non-ferrous metal futures business is transacted on our platforms. LME and LME Clear are members of the HKeX group.

Managed Funds Association (MFA) represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent, and fair capital markets. MFA, based in Washington, DC, is an advocacy, education, and communications organization established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices and learn from peers, and communicate the industry's contributions to the global economy. MFA members help pension plans, university endowments, charitable organizations, qualified individuals and other institutional investors to diversify their investments, manage risk and generate attractive returns. MFA has cultivated a global membership and actively engages with regulators and policy makers in Asia, Europe, the Americas, Australia and many other regions where MFA members are market participants.

SIFMA AMG's members represent U.S. asset management firms whose combined global assets under management exceed $34 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds.

The World Federation of Exchanges (WFE) is the global trade association that represents more than 200 Financial Market Infrastructures (FMIs), of which more than 100 are Central Counterparties (CCPs) and Central Securities Depositories (CSDs). Our members include exchange groups as well as standalone CCPs.