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TO:
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

16 January 2019

Re: Leverage ratio treatment of client cleared derivatives - Consultative Document

Dear Members of the Basel Committee on Banking Supervision,

The Global Foreign Exchange Division ("GFXD") of the Global Financial Markets Association welcomes the opportunity to provide comments to the BCBS on its consultation paper published in October 2018 (the "CP") on "Leverage ratio treatment of client cleared derivatives".

The GFXD was formed in co-operation with the Association for Financial Markets in Europe (AFME), the Securities Industry and Financial Markets Association (SIFMA) and the Asia Securities Industry and Financial Markets Association (ASIFMA). Our members comprise 25[1] global foreign exchange market participants collectively representing approximately 80%[2] of the FX inter-dealer market. The GFXD and its members are committed to ensuring a robust, open and fair marketplace and welcome the opportunity for continued dialogue with global regulators.

[1] Bank of America Merrill Lynch, Bank of New York Mellon, Barclays, BNP Paribas, Citigroup, Crédit Agricole, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Lloyds Bank, Mizuho, Morgan Stanley, MUFG Bank, Natwest Markets, Nomura, Royal Bank of Canada, Scotiabank, Société Générale, Standard Chartered Bank, State Street, UBS, Wells Fargo and Westpac.

[2] According to Euromoney league tables.

The FX market is the world's largest and most liquid financial market, and the effective and efficient exchange of currencies underpins the world's financial system.[3] Sovereign entities, central banks and other government-sponsored entities rely on the FX market being well-functioning and liquid, and corporations and investors regularly participate in the market for important operational needs: to reduce risk by hedging currency exposures; to convert their returns from international investments into domestic currencies; and to make cross-border investments and raise funding outside home markets.

Many of the current legislative and regulatory reforms have had, and will continue to have, a significant impact upon the operation of the global FX market, and the potential consequences of reforms should therefore be carefully evaluated before they are implemented.

Alternative Treatment for Client Cleared Derivatives in Leverage Ratio Calculations

We welcome the BCBS's initiative in consulting on the impact of the leverage ratio on client cleared trades, with a view to potentially recognising the exposure-reducing effect of initial margin (IM). We are supportive of the leverage ratio framework recognising the exposure-reducing effect of IM as we believe the current treatment of IM in the leverage ratio can be a disincentive for client clearing service providers to offer or expand client clearing, and thus that the leverage ratio acts as a limiting factor on the provision of overall client clearing capacity. We wish to ensure the leverage ratio calculation accurately reflects the purpose of margin and that the provision of client clearing services is encouraged rather than penalized.[4,5]

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[3] As reported by the Bank for International Settlements in their 'Triennial Central Bank Survey: Foreign Exchange Turnover in April 2016 (the "2016 BIS FX Survey"),' trading in FX markets averaged $5.1 trillion per day in April 2016, with over 77% of FX activity executed by market participants across five global jurisdictions. 2016 BIS FX Survey, available at http://www.bis.org/publ/rpfx16.htm.

[4] In this regard, we believe that the BCBS's "option 3" provides the appropriate incentives for clearing, while also addressing the wider systemic capacity concerns as well as those evidenced in the way the markets currently function.

[5] We would also like the BCBS to consider that SA-CCR, as currently proposed, leads to an overestimation of FX exposure. We believe that SA-CCR's FX exposure calculation should be amended in order that diversification benefits across currency exposures can be recognized. Such a revision could be undertaken in parallel with the revision of the leverage ratio for cleared exposures, to not impede or delay other prudential initiatives.

We are very grateful for the opportunity to share our views on the concerns we have raised. Please do not hesitate to contact John Ball on +852 2531-6512, jball@gfma.org or Victoria Cumings on +1 212-313-1141, email vcumings@gfma.org, should you wish to discuss any of the above.

Yours sincerely,

James Kemp
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