Federal Deposit Insurance Corporation
550 17th Street NW, Washington, DC 20429-9990

Financial Institution Letter
FIL-47-2014
September 9, 2014

Margin and Capital Requirements for Covered Swap Entities

Summary: The Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Farm Credit Administration, and the Federal Housing Finance Agency (the agencies) are issuing a Notice of Proposed Rulemaking (NPR) and request for comment to implement Sections 731 and 764 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). These sections require the agencies to adopt rules jointly to establish capital requirements, and initial and variation margin requirements for all non-cleared swaps and non-cleared security-based swaps of dealers or major participants. Comments will be solicited on this NPR for 60 days following publication in the Federal Register.

Statement of Applicability to Institutions with Total Assets Under $1 Billion: The thresholds and minimum transfer amount in the proposed rule are sufficiently high that the proposed rule should have little, if any, impact on the vast

Distribution:
FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:
Chief Executive Officer
Chief Financial Officer
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Attachment:
Notice of Proposed Rulemaking to Establish Margin and Capital Requirements for Covered Swap Entities - PDF

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Highlights:

The proposed rule applies to the largest and most active participants in the over-the-counter derivatives market that have been designated by the U.S. Commodity Futures Trading Commission (CFTC) or the U.S. Securities and Exchange Commission (SEC) as swap dealers or major swap participants or security-based swap dealers or security based major swap participants. The NPR calls these firms "covered swap entities" Under the proposed rule:

- Covered swap entities (CSEs) would be required to post and collect initial and variation margin from other CSEs.
- CSEs trading with financial end users with material swaps exposures (notional of $3 billion) must post and collect initial margin if the amount of required initial margin exceeds $65 million.
- CSEs would be required to post and collect variation margin from all financial end users if the amount of required variation margin exceeds $650,000.
- Most community banks' swaps activities are in amounts too small to be affected by the proposed rule.
- The proposed rule does not require CSEs to collect margin from commercial end users.
- The proposal establishes minimum quality standards for acceptable initial and variation margin collateral. It also establishes minimum safekeeping standards for initial margin collateral posted by CSEs and counterparties to assure collateral will be available to support the trades if defaults occur.
- Only new trades entered into after the proposed effective dates would be subject to the proposed requirements. These dates range from December 2015 to December 2019.