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- **12 CFR Part 1221**
- **RIN: 2590-AA45**
- **Margin and Capital Requirements for Covered Swap Entities**

Dear Sir.

Thank you for giving us the opportunity to comment on your notice of proposed rulemaking: Margin and Capital Requirements for Covered Swap Entities.

The OCC, Board, FDIC, FCA, and FHFA (collectively, the Agencies) are requesting comment on a proposal to establish minimum margin and capital requirements for registered swap dealers, major swap participants, security-based swap dealers, and major security-based swap participants (covered swap entities) for which one of the Agencies is the prudential regulator.

I generally support your principles-based proposal, which would apply to uncleared swaps entered into after the date the regulation comes into force. I will make some general comments on the main issues.

#### Capital requirements

I agree that a covered swap entity should continue to comply with the regulatory capital rules that already apply to that covered swap entity as part of its prudential regulatory regime. However I look forward to the implementation of Basel III, or its equivalent, which looks to focus more regulatory oversight on uncleared positions, and which suggests that higher capital requirements should apply here.<sup>1</sup>

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<sup>1</sup> Please see [www.bis.org/publ/bcbs189.pdf](http://www.bis.org/publ/bcbs189.pdf) for further information.

### Margin requirements

I support the proposal to allow covered swap entities to use approved internal models to calculate the initial margining requirements, subject to a fallback option, which should be based on a table of standardised initial margin requirements. This is very much the way to go,<sup>2</sup> and will surely spur covered swap entities to develop and use the more risk-accurate internal models compared to such standardised approach.

I also agree with an approach for calculating variation margins, which would allow for aggregating transactions entered into with a counterparty under a qualifying master netting agreement. This is entirely appropriate.

Under proposed § \_\_.5 Documentation of margin matters, a covered swap entity would be required to maintain documentation on the “methods, procedures, rules, and inputs for determining the value of each swap or security-based swap for purposes of calculating variation margin requirements”. Although the proposal does not prescribe a specific valuation method, the agreed methods, procedures, rules and inputs should be required to constitute a complete and independently verifiable methodology for valuing each swap or security-based swap transaction entered into between the relevant parties. I believe that this would increase transparency, operational efficiency and assist in the early and objective resolution of swap and security-based swap valuation disputes.

### Summary

In summary, I welcome your proposal. I agree with the principles-based approach that you have taken here. I would only specifically recommend that you should require any swap or security-based swap valuation methodology to constitute a complete and independently verifiable methodology for the purposes of margining, and to assist in the objective resolution of valuation disputes.

Yours faithfully

Chris Barnard

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<sup>2</sup> Similar to the approach adopted by Basel for banks, and e.g. Solvency II for European insurers.