World Council

September 7, 2018

Sent via Email
Mark Carney
Chair
Financial Stability Board
Bank for International
Settlements CH-4002
Basel,
Switzerland
fsb@fsb.org

Re: Consultative Document: *Incentives to centrally clear over-the-counter (OTC) derivatives*

Dear Chair Carney:

World Council of Credit Unions (World Council) appreciates the opportunity to comment on the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the Committee on Payments and Market Infrastructure (CPMI) and the International Organization of Securities Commissions (together "the Committees") on the consultative document *Incentives to centrally clear over-the-counter (OTC) derivatives*.[1] Credit unions are cooperative depository institutions and World Council is the leading trade association and development organization for the international credit union movement. Worldwide, there are over 60,000 credit unions in 109 countries with USD 1.8 trillion in total assets serving 223 million physical person members.[2]

9. Are there any areas where potential policy adjustments should be considered which would enhance the incentives for or access to central clearing of OTC derivatives, or the incentive s to provide client clearing services?

World Council urges the Committees to reduce Basel III's capital requirements for issuers and users of interest-rate swaps and caps to help better ensure continued access to interest rate derivatives for smaller uses, such as credit unions and other community-based financial institutions.

[1] Financial Stability Board, Consultative Document: *Incentives to centrally clear over-the-counter (OTC) derivatives* (Aug. 2018), *available at* http://www.fsb.org/2018/08/incentives-to-centrally-clear-over-the-counter-otc-derivatives/.
[2] World Council of Credit Unions, *2016 Statistical Report* (2017), *available at* http://www.woccu.org/publications/statreport.

We are concerned that smaller users of interest rate swaps and caps may in the future no longer be able to access interest rate derivatives at fair rates (or at all) unless revisions are made to the standardized approach for measuring counterparty credit risk exposures (SA-CCR). Credit unions and other community-based financial institutions that use interest rate derivatives typically have relatively small hedged positions that are usually less than EUR 1 billion and which are usually structured to hedge against interest rate risk (with positions that are typically "all one way").

Continued access for credit unions and other community based-financial institutions to fair and affordable interest rate swaps and caps promotes safety and soundness by helping community-based depository institutions hedge interest rate risks related to fixed-rate mortgage loans held in portfolio and similar fixed-rate investments.

Reducing SA-CCR-related capital requirements under the leverage ratio and other capital measures—especially for banks that are derivatives clearers or issuers—would help ensure that community-based depository institutions continue to have access to interest rate swaps and caps at affordable rates. Without changes to SA-CCR, we are concerned that many banks that are interest rate derivative clearers and issuers may drop clients that have portfolios below several billion Euro because of SA-CCR's high cost of capital.

We urge the Committees to reduce SA-CCR's capital requirements to help better ensure continued access to interest rate derivatives for smaller uses.

10. Do you agree or disagree with the report's characterisation of the difficulties some clients, especially clients with smaller or more directional derivatives activity, face in: a. accessing clearing arrangements; and b. conducting trading and/or hedging activity given the restrictions imposed by their client clearing service providers?

Yes, World Council agrees with the report's characterization of the difficulties that clients with smaller and/or more directional derivatives activities face in accessing clearing arrangements and conducting hedging activities. Credit unions and other community-based depository institutions seeking to hedge interest rate risks in their portfolios through interest rate swaps and caps frequently face these challenges.

11. Do you agree or disagree with the finding that the provision of client clearing services is concentrated in a relatively small number of banks ? Does the current level of concentration raise any concerns about incentives to centrally clear, or risks to the continuity of provision of critical economic functions, including during periods of stress?

We agree with the finding that client clearing services are concentrated in a relatively small number of banks. From the perspective of community-based financial institutions with smaller, more directional portfolios, the limited number of client clearing service providers raises concerns about whether community-based institutions will have continued access to interest rate derivatives products. More market participants would make it easier for smaller, more directional clients to find client clearing providers that are interested in their business.

14. Should regulation seek to create incentives to centrally clear OTC derivatives for all financial firms, including the smallest and least active? If so, what would that imply for the costs of uncleared trades? If not, for which types of firm and product is it most important to have incentives for central clearing? Conversely, for which types of firm and product would it be acceptable not to have incentives for central clearing? Please elaborate.

Yes, World Council strongly agrees with the Committees that regulation should seek to create incentives to centrally clear interest rate swaps for all firms, including the smallest and least active, to help better ensure that credit unions and other community-based depository institution can continue to hedge interest rate risk using interest rate derivatives at fair rates. We urge the Committees to design such incentives or to mandate fair and affordable access to centrally cleared interest rate derivatives for all users.

World Council appreciates the opportunity to comment on the Committees' *Incentives to centrally clear over-the-counter (OTC) derivatives* consultative document. If you have questions about our comments, please feel free to contact me at medwards@woccu.org or +1- 202-508-6755.

Sincerely,

Michael S. Edwards
VP and General Counsel
World Council of Credit Unions