

# THE FINANCIAL SERVICES ROUNDTABLE

*Financing America's Economy*



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**RICHARD M. WHITING**  
EXECUTIVE DIRECTOR  
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May 19, 2011

*Submitted via Electronic Mail at Regulations.gov*

Jennifer J. Johnson  
Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551

**Re: RIN No. AD-7100-AD71, Financial Market Utilities**

Dear Ms. Johnson;

The Financial Services Roundtable (the “Roundtable”) appreciates the opportunity to respond to RIN 7100-AD71, a notice of proposed rulemaking that sets forth the proposal of the Board of Governors of the Federal Reserve System (the “Federal Reserve” or “Fed”) regarding the risk management standards which will govern the payment, clearing, and settlement activities of certain financial market utilities (“FMUs”) designated as systemically important by the Financial Stability Oversight Council (the “Council” or “FSOC”).<sup>1</sup>

The Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for \$92.7 trillion in managed assets, \$1.2 trillion in revenue, and 2.3 million jobs. As part of their operations, Roundtable member companies are active users of the payment, clearing, and settlements systems that are now defined as FMUs under Title VIII of the Dodd-Frank Act.

The Roundtable agrees with the Federal Reserve’s statement that FMUs constitute a critical component of the nation’s financial system. The payment, clearing, and settlement services provided by FMUs allow for the efficient flow of capital between participants in the

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<sup>1</sup> 76 Fed. Reg. 18445 (April 4, 2011) (hereinafter “Proposed Rule”)

financial system. As such, financial and economic stability require that FMUs uphold strong risk management standards.

The global activities of certain FMUs entail a vast number of transactions and locations. In view of the international nature of many FMU activities, the Roundtable supports the Federal Reserve's proposal to use the "core principle" recommendations of the Committee on Payment and Settlement Systems (the "CPSS") and the Technical Committee of the International Organization of Securities Commissions ("IOSCO"), along with the Federal Reserve's current "Policy on Payment System Risk," to form the basis for the risk-management standards that will govern designated FMUs. As the Proposal notes, the CPSS and IOSCO currently are reviewing and updating their earlier established standards concerning the regulation of Financial Market Infrastructures. The Roundtable is reviewing the consultative report that was issued by CPSS and IOSCO on March 10, 2011.<sup>2</sup> The CPSS and IOSCO have asked market participants to provide comments on their proposed market principles by July 29, 2011; their final report is expected to be published in early 2012.

The Roundtable supports the Federal Reserve proposal to review the final CPSS-IOSCO Report when it is released next year and then seek comment on any of the revised standards that CPSS and IOSCO may propose.<sup>3</sup> The Roundtable also appreciates actions by the Federal Reserve that have encouraged market participants in the U.S. to comment actively on the forthcoming CPSS-IOSCO standards.<sup>4</sup>

With regard to the current standards put forth in Federal Reserve notice, the Roundtable urges the Fed to take care in allowing FMUs designated under Title VIII to make immediate emergency changes to their governing rules.<sup>5</sup> Specifically, we request that the Federal Reserve incorporate CPSS-IOSCO principles with regard to customer collateral and margin requirements so as to ensure that designated FMUs will apply loss mutualization standards that comport with international requirements. We believe that situations that justify alteration of these standards are rare and should be carefully scrutinized.

The Roundtable notes, however, that not all market clearing systems assume the credit and liquidity risks of their users as required by § 234.3(a)(3) of the proposed rule. For example, automated clearing house ("ACH") clearing arrangements allow for the unwinding of transactions that can not be settled due to the default of one party. Traditionally, this practice has allowed ACH networks to provide affordable retail payments to merchants and consumers, and the risk of unwinding payments is well understood by ACH network participants.

Overall, the risk management standards proposed by the Federal Reserve would be extremely disruptive to low aggregate value systems. Furthermore, the Roundtable believes

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<sup>2</sup> CPSS-IOSCO Principles for Financial Market Infrastructure, Consultative Report (March 2011), *available at* <http://www.bis.org/publ/cpss94.pdf>.

<sup>3</sup> 76 Fed. Reg. at 18448.

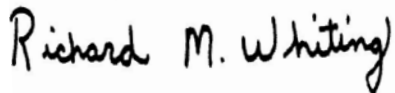
<sup>4</sup> Press Release, U.S. Regulators Encourage Comments on the CPSS-IOSCO Consultative Report on the Principles for Financial Market Infrastructures (March 10, 2011), *available at* <http://federalreserve.gov/newsevents/press/other/20110310a.htm>.

<sup>5</sup> Proposed Rule § 234.5(b)

strongly that the imposition of the CPSS-IOSCO Core Principles to low value systems would be improper considering the inability of such systems to cause large systemic disruptions within the marketplace. Accordingly, consistent with its earlier comments, the Roundtable discourages the Federal Reserve and other agencies that serve as members of FSOC from designating low aggregate value systems as systemically important.<sup>6</sup>

The Roundtable again thanks the Federal Reserve System for the opportunity to submit these comments. To the extent you have questions concerning the points made in this letter please contact me or my colleague Brad Ipema at (202) 589-2424.

Sincerely yours,

A handwritten signature in black ink that reads "Richard M. Whiting". The signature is written in a cursive style with a large initial 'R'.

Rich Whiting  
Executive Director and Senior Counsel

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<sup>6</sup> See Letter from the Financial Services Roundtable to the Financial Stability Oversight Council (Jan. 20, 2011) 4, *available at* <http://www.fsround.org/policy/regulatory/pdf2011/FinalFSRTTitleVIIICommentLetterJan202011v3.pdf>.