

the Commission’s issuance of a comparability determination under this section.

(h) *Records, scope of application, effective and compliance dates*—(1) *Records*. Swap dealers and major swap participants shall create a record of their compliance with this section and shall retain records in accordance with § 23.203.

(2) *Scope of Application*. The requirements of this section shall not apply to swaps executed prior to September 14, 2021.

(3) *Effective date and compliance date*. (i) This section shall be effective on November 13, 2020.

(ii) Provided that swap dealers and major swap participants comply with the recordkeeping requirements in paragraph (h)(1) of this section, the exceptions in paragraph (e) of this section are effective upon the effective date of the rule.

(iii) Swap dealers and major swap participants must comply with the requirements of this section no later than September 14, 2021.

[85 FR 56997, Sept. 14, 2020, as amended at 85 FR 69499, Nov. 3, 2020]

§§ 23.24–23.40 [Reserved]

Subpart E—Capital and Margin Requirements for Swap Dealers and Major Swap Participants

SOURCE: 81 FR 695, Jan. 6, 2016, unless otherwise noted.

§ 23.100 Definitions applicable to capital requirements.

For purposes of §§ 23.101 through 23.106 of subpart E, the following terms are defined as follows:

Actual daily net trading profit and loss. This term is used in assessing the performance of a swap dealer’s VaR measure and refers to changes in the swap dealer’s portfolio value that would have occurred were end-of-day positions to remain unchanged (therefore, excluding fees, commissions, reserves, net interest income, and intraday trading).

Advanced approaches Board-regulated institution. The term shall have the

meaning ascribed to it in 12 CFR part 217.

BHC equivalent risk-weighted assets. This term means the risk-weighted assets of a swap dealer that elects to meet the capital requirements in § 23.101(a)(1)(i) calculated as follows:

(1) If the swap dealer is not approved to use internal models to calculate credit risk exposure under § 23.102, it shall calculate its credit risk-weighted assets using the bank holding company regulations in subpart D of 12 CFR part 217, as if the swap dealer itself were a bank holding company, with the swap dealer permitted to calculate its exposure amount for OTC derivative contracts using either the current exposure method or the standardized approach for counterparty credit risk, without regard to the status of any affiliate of the swap dealer as an advanced approaches Board-regulated institution;

(2) If the swap dealer is approved to use internal models to calculate credit risk exposure under § 23.102, it shall calculate its credit risk-weighted assets using the bank holding company regulations in subpart E of 12 CFR part 217, as if the swap dealer itself were a bank holding company, with the swap dealer permitted to calculate its exposure amount for OTC derivative contracts using either the internal models methodology or the standardized approach for counterparty credit risk, without regard to the status of any affiliate of the swap dealer as an advanced approaches Board-regulated institution;

(3) If the swap dealer is not approved to use internal models to calculate market risk exposure under § 23.102, it shall compute a market risk capital charge for the positions that the swap dealer holds in its proprietary accounts using the applicable standardized market risk charges set forth in § 240.18a–1 of this title and § 1.17 of this chapter for such positions, and multiplying that amount by a factor of 12.5;

(4) If the swap dealer is approved to use internal models to calculate market risk exposure under § 23.102, it shall calculate its market risk-weighted assets using subpart F of 12 CFR part 217; *Provided, however*, that the swap dealer

may elect to apply either the provisions of such sections that are applicable to advanced approaches Board-regulated institutions or those that are applicable to Board-regulated institutions that are not advanced approaches Board-regulated institutions.

Credit risk. This term refers to the risk that the counterparty to an uncleared swap transaction could default before the final settlement of the transaction's cash flows.

Credit risk exposure requirement. This term refers to the amount that the swap dealer (other than a swap dealer subject to the minimum capital requirements of § 23.101(a)(1)(i)) is required to compute under § 23.102 if approved to use internal credit risk models, or to compute under § 23.103 if not approved to use internal credit risk models.

Exempt foreign exchange swaps and foreign exchange forwards are those foreign exchange swaps and foreign exchange forwards that were exempted from the definition of a swap by the U.S. Department of the Treasury.

Market risk exposure. This term means the risk of loss in a position or portfolio of positions resulting from movements in market prices and other factors. Market risk exposure is the sum of:

(1) General market risks including changes in the market value of a particular assets that result from broad market movements, such as a changes in market interest rates, foreign exchange rates, equity prices, and commodity prices;

(2) Specific risk, which includes risks that affect the market value of a specific instrument, such as the credit risk of the issuer of the particular instrument, but do not materially alter broad market conditions;

(3) Incremental risk, which means the risk of loss on a position that could result from the failure of an obligor to make timely payments of principal and interest; and

(4) Comprehensive risk, which is the measure of all material price risks of one or more portfolios of correlation trading positions.

Market risk exposure requirement. This term refers to the amount that the swap dealer (other than a swap dealer

subject to the minimum capital requirements of § 23.101(a)(1)(i)) is required to compute under § 23.102 if approved to use internal market risk models, or § 23.103 if not approved to use internal market risk models.

OTC derivative contract. This term shall have the meaning ascribed to it in 12 CFR part 217.

Predominantly engaged in non-financial activities. A swap dealer is predominantly engaged in non-financial activities if: (1) The swap dealer's consolidated annual gross financial revenues, or if the swap dealer is a wholly owned subsidiary, then the swap dealer's consolidated parent's annual gross financial revenues, in either of its two most recently completed fiscal years represents less than 15 percent of the swap dealer's consolidated gross revenue in that fiscal year ("15% revenue test"), and (2) the consolidated total financial assets of the swap dealer, or if the swap dealer is wholly owned subsidiary, the consolidated total financial assets of the swap dealer's parent, at the end of its two most recently completed fiscal years represents less than 15 percent of the swap dealer's consolidated total assets as of the end of the fiscal year ("15% asset test"). For purpose of computing the 15% revenue test or the 15% asset test, a swap dealer's activities or swap dealer's parent's activities shall be deemed financial activities if such activities are defined as financial activities under 12 CFR 242.3 and Appendix A to 12 CFR 242, including lending, investing for others, safeguarding money or securities for others, providing financial or investment advisory services, underwriting or making markets in securities, providing securities brokerage services, and engaging as principal in investing and trading activities; *Provided, however,* a swap dealer may exclude from its financial activities accounts receivable resulting from non-financial activities.

Prudential regulator. This term has the same meaning as set forth in section 1a(39) of the Act, and includes the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Farm Credit Administration, and the Federal Housing Finance Agency, as applicable

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to a swap dealer or major swap participant.

Regulatory capital. This term shall mean:

(1) With respect to the capital requirement under § 23.101(a)(1)(i), the amount of common equity tier 1 capital, additional tier 1 capital, and tier 2 capital maintained by a covered SD, computed in accordance with § 23.101(a)(1)(i);

(2) With respect to the capital requirement under § 23.101(a)(1)(ii), the amount of tentative net capital and net capital maintained by a covered SD, computed in accordance with § 23.101(a)(1)(ii);

(3) With respect to the capital requirement under § 23.101(a)(2)(i), the amount of tangible net worth as defined in this section and maintained by a covered SD; and

(4) With respect to the capital requirement under 23.101(b), the amount of tangible net worth as defined in this section and maintained by a major swap participant.

Regulatory capital requirement. This term refers to each of the capital requirements that § 23.101 applies to a swap dealer or major swap participant.

Tangible net worth. This term means the net worth of a swap dealer or major swap participant as determined in accordance with generally accepted accounting principles in the United States, excluding goodwill and other intangible assets. In determining net worth, all long and short positions in swaps, security-based swaps and related positions must be marked to their market value. A swap dealer or major swap participant must include in its computation of tangible net worth all liabilities or obligations of a subsidiary or affiliate that the swap dealer or major swap participant guarantees, endorses, or assumes either directly or indirectly.

Uncleared swap margin. This term means the amount of initial margin, computed in accordance with § 23.154, that a swap dealer would be required to collect from each counterparty for each outstanding swap position of the swap dealer. A swap dealer must include all swap positions in the calculation of the uncleared swap margin amount, including swaps that are ex-

empt or excluded from the scope of the Commission's margin regulations for uncleared swaps pursuant to § 23.150, exempt foreign exchange swaps or foreign exchange forwards, or netting set of swaps or foreign exchange swaps, for each counterparty, as if that counterparty was an unaffiliated swap dealer. Furthermore, in computing the uncleared swap margin amount, a swap dealer may not exclude the *initial margin threshold amount* or *minimum transfer amount* as such terms are defined in § 23.151.

[85 FR 57547, Sept. 15, 2020]

§ 23.101 Minimum financial requirements for swap dealers and major swap participants.

(a)(1) Except as provided in paragraphs (a)(2) through (a)(5) of this section, each swap dealer must elect to be subject to the minimum capital requirements set forth in either paragraphs (a)(1)(i) or (a)(1)(ii) of this section:

(i) A swap dealer that elects to meet the capital requirements in this paragraph (a)(1)(i) must at all times maintain regulatory capital that meets the following:

(A) \$20 million of common equity tier 1 capital, as defined under the bank holding company regulations in 12 CFR 217.20, as if the swap dealer itself were a bank holding company subject to 12 CFR part 217;

(B) An aggregate of common equity tier 1 capital, additional tier 1 capital, and tier 2 capital, all as defined under the bank holding company regulations in 12 CFR 217.20, equal to or greater than eight percent of the swap dealer's BHC equivalent risk-weighted assets; *provided, however*, that the swap dealer must maintain a minimum of common equity tier 1 capital equal to six point five percent of its BHC equivalent risk-weighted assets; *provided further*, that any capital that is subordinated debt under 12 CFR 217.20 and that is included in the swap dealer's capital for purposes of this paragraph (a)(1)(i)(B) must qualify as subordinated debt under § 240.18a–1d of this title;

(C) An aggregate of common equity tier 1 capital, additional tier 1 capital, and tier 2 capital, all as defined under the bank holding company regulations

in 12 CFR 217.20, equal to or greater than eight percent of the amount of uncleared swap margin, as that term is defined in § 23.100 of this part, for each uncleared swap position open on the books of the swap dealer, computed on a counterparty by counterparty basis pursuant to § 23.154 of this part; and

(D) The amount of capital required by a registered futures association of which the swap dealer is a member.

(ii)(A) A swap dealer that elects to meet the capital requirements in this paragraph (a)(1)(ii) must at all times maintain net capital, as defined and computed in accordance with § 240.18a-1 of this title as if the swap dealer were a security-based swap dealer registered with the Securities and Exchange Commission and subject to § 240.18a-1 of this title, that equals or exceeds the greater of:

(1) \$20 million; *provided however*, that if the swap dealer is approved under § 23.102 of this part to use internal models to compute market risk capital charges or credit risk capital charges it must maintain tentative net capital, as defined and computed in accordance with § 240.18a-1 of this title as if the swap dealer were a security-based swap dealer registered with the Securities and Exchange Commission and subject to § 240.18a-1 of this title, of not less than \$100 million and net capital of \$20 million;

(2) Two percent of the uncleared swap margin, as defined in § 23.100 of this part; or

(3) The amount of capital required by a registered futures association of which the swap dealer is a member.

(B) A swap dealer that uses internal models to compute market risk for its proprietary positions under § 240.18a-1(d) of this title must calculate the total market risk as the sum of the VaR measure, stressed VaR measure, specific risk measure, comprehensive risk measure, and incremental risk measure of the portfolio of proprietary positions in accordance with § 23.102 of this part and Appendix A to Subpart E of Part 23; and

(C) A swap dealer may recognize as a current asset, receivables from third-party custodians that maintain the swap dealer's initial margin deposits associated with uncleared swap and se-

curity-based swap transactions pursuant to the margin rules of the Commission, the Securities and Exchange Commission, a prudential regulator, as defined in section 1a(39) of the Act, or a foreign jurisdiction that has received a margin Comparability Determination under § 23.160 of this chapter.

(2)(i) A swap dealer that is “predominantly engaged in non-financial activities” as defined in § 23.100 of this part may elect to meet the minimum capital requirements in this paragraph (a)(2) in lieu of the capital requirements in paragraph (a)(1) of this section.

(ii) A swap dealer that satisfies the requirements of paragraph (a)(2)(i) of this section and elects to meet the requirements of this paragraph (a)(2) must maintain tangible net worth, as defined in § 23.100 of this part, equal to or in excess of the greatest of the following:

(A) \$20 million plus the amount of the swap dealer's market risk exposure requirement (as defined in § 23.100 of this part) and its credit risk exposure requirement (as defined in § 23.100 of this part) associated with the swap dealer's swap and related hedge positions that are part of the swap dealer's swap dealing activities. The swap dealer shall compute its market risk exposure requirement and credit risk exposure requirement for its swap positions in accordance with § 23.102 of this part if the swap dealer has obtained approval to use internal capital models. The swap dealer shall compute its market risk exposure requirement and credit risk exposure requirement in accordance with the standardized approach of paragraphs (b)(1) and (c)(1) of § 23.103 of this part if it has not been approved to use internal capital models;

(B) Eight percent of the amount of uncleared swap margin, as that term is defined in § 23.100 of this part, for each uncleared swap positions open on the books of the swap dealer, computed on a counterparty by counterparty basis pursuant to § 23.154 of this part; or

(C) The amount of capital required by a registered futures association of which the swap dealer is a member.

(3) A swap dealer that is subject to minimum capital requirements established by the rules or regulations of a

prudential regulator pursuant to section 4s(e) of the Act is not subject to the regulatory capital requirements set forth in paragraph (a)(1) or (2) of this section.

(4) A swap dealer that is a futures commission merchant is subject to the minimum capital requirements of §1.17 of this title, and is not subject to the regulatory capital requirements set forth in paragraph (a)(1) or (2) of this section.

(5) A swap dealer that is organized and domiciled outside of the United States, including a swap dealer that is an affiliate of a person organized and domiciled in the United States, may satisfy its requirements for capital adequacy under paragraphs (a)(1) or (2) of this section by substituted compliance with the capital adequacy requirement of its home country jurisdiction. In order to qualify for substituted compliance, a swap dealer's home country jurisdiction must receive from the Commission a Capital Comparability Determination under §23.106 of this part. A swap dealer that is a registered futures commission merchant may not apply for a Capital Comparability Determination and must comply with the minimum capital requirements set forth in §1.17 of this chapter.

(6) A swap dealer that elects to meet the capital requirements of paragraph (a)(1)(i), (a)(1)(ii), or (a)(2) of this section may not subsequently change its election without the prior written approval of the Commission. A swap dealer that wishes to change its election must submit a written request to the Commission and must provide any additional information and documentation requested by the Commission.

(b)(1) Every major swap participant for which there is not a prudential regulator must at all time have and maintain positive tangible net worth.

(2) Notwithstanding paragraph (b)(1) of this section, each major swap participant for which there is no prudential regulator must meet the minimum capital requirements established by a registered futures association of which the major swap participant is a member.

(3) Notwithstanding paragraphs (b)(1) and (2) of this section, a major swap participant that is a futures commis-

sion merchant is subject to the minimum capital requirements of §1.17 of this chapter, and is not subject to the regulatory capital requirements set forth in paragraph (b)(1) and (2) of this section.

(4) A major swap participant that is organized and domiciled outside of the United States, including a major swap participant that is an affiliate of a person organized and domiciled in the United States, may satisfy its requirements for capital adequacy under paragraphs (b)(1) and (2) of this section by substituted compliance with the capital adequacy requirement of its home country jurisdiction. In order to qualify for substituted compliance, a major swap participant's home country jurisdiction must receive from the Commission a Capital Comparability Determination under §23.106 of this part. A major swap participant that is a registered futures commission merchant may not apply for a Capital Comparability Determination and must comply with the minimum capital requirements set forth in §1.17 of this chapter.

(c)(1) Before any applicant may be registered as a swap dealer or major swap participant, the applicant must demonstrate to the satisfaction of a registered futures association of which it is a member, or applying for membership, one of the following:

(i) That the applicant complies with the applicable regulatory capital requirements in paragraphs (a)(1), (a)(2), (b)(1), or (b)(2) of this section;

(ii) That the applicant is a futures commission merchant that complies with §1.17 of this chapter;

(iii) That the applicant is subject to minimum capital requirements established by the rules or regulations of a prudential regulator under paragraph (a)(3) of this section;

(iv) That the applicant is organized and domiciled in a non-U.S. jurisdiction and is regulated in a jurisdiction for which the Commission has issued a Capital Comparability Determination under §23.106 of this part, and the non-U.S. person has obtained confirmation from the Commission that it may rely upon the Commission's Comparability Determination under §23.106 of this part.

(2) Each swap dealer and major swap participant subject to the minimum capital requirements set forth in paragraphs (a) and (b) of this section must be in compliance with such requirements at all times, and must be able to demonstrate such compliance to the satisfaction of the Commission and to the registered futures association of which the swap dealer or major swap participant is a member.

[85 FR 57548, Sept. 15, 2020]

§ 23.102 Calculation of market risk exposure requirement and credit risk exposure requirement using internal models

(a) A swap dealer may apply to the Commission or to a registered futures association of which the swap dealer is a member to obtain approval to use internal models under terms and conditions required by the Commission or the registered futures association and by these regulations, when calculating the swap dealer's market risk exposure and credit risk exposure under §§ 23.101(a)(1)(i)(B), 23.101(a)(1)(ii)(A), or 23.101(a)(2)(ii)(A); *Provided however*, that the Commission must issue a determination that the registered futures association's model requirements and review process are comparable to the Commission's requirements and review process in order for the registered futures association's model approval to be accepted as an alternative means of compliance with this section.

(b) The swap dealer's application to use internal models to compute market risk exposure and credit risk exposure must be in writing and must be filed with the Commission and with a registered futures association of which the swap dealer is a member. The swap dealer must file the application in accordance with instructions established by the Commission and the registered futures association.

(c) A swap dealer's application must include the following:

(1) In the case of a swap dealer subject to the minimum capital requirements in § 23.101(a)(1)(i) applying to use internal models to compute market risk exposure, the information required under subpart F of 12 CFR part 217, as if the swap dealer were itself a bank

holding company subject to 12 CFR part 217.

(2) In the case of a swap dealer subject to the minimum capital requirements in § 23.101(a)(1)(i) applying to use internal models to compute credit risk exposure, the information required under subpart E of 12 CFR part 217 in order to calculate credit risk-weighted assets in accordance with sections 217.131 through 217.155 of that subpart, as if the swap dealer were itself a bank holding company subject to 12 CFR part 217.

(3) In the case of a swap dealer subject to the minimum capital requirements in § 23.101(a)(ii) or § 23.101(a)(2), the information set forth in Appendix A to Subpart E of Part 23.

(d) The Commission, or registered futures association upon obtaining the Commission's determination that its requirements and model approval process are comparable to the Commission's requirements and process, may approve or deny the application, or approve or deny an amendment to the application, in whole or in part, subject to any conditions or limitations the Commission or registered futures association may require, if the Commission or registered futures association finds the approval to be appropriate in the public interest, after determining, among other things, whether the applicant has met the requirements of this section. A swap dealer that has received Commission or registered futures association approval to compute market risk exposure requirements and credit risk exposure requirements pursuant to internal models must compute such charges in accordance with Appendix A to Subpart E of Part 23.

(e) A swap dealer must cease using internal models to compute its market risk exposure requirement and credit risk exposure requirement, upon the occurrence of any of the following:

(1) The swap dealer has materially changed a mathematical model described in the application or materially changed its internal risk management control system without first submitting amendments identifying such changes and obtaining the approval of the Commission or the registered futures association for such changes;

(2) The Commission or the registered futures association of which the swap dealer is a member determines that the internal models are no longer sufficient for purposes of the capital calculations of the swap dealer as a result of changes in the operations of the swap dealer;

(3) The swap dealer fails to come into compliance with its requirements under this section, after having received from the Director of the Commission's Division of Swap Dealer and Intermediary Oversight, or from the registered futures association of which the swap dealer is a member, written notification that the swap dealer is not in compliance with its requirements, and must come into compliance by a date specified in the notice; or

(4) The Commission by written order finds that permitting the swap dealer to continue to use the internal models is no longer appropriate.

(f)(1) Notwithstanding paragraphs (a) through (d) of this section, a swap dealer may use internal market risk or credit risk models upon the submission to the Commission and the registered futures association of which the swap dealer is a member a certification, signed by the Chief Executive Officer, Chief Financial Officer, or other appropriate official with knowledge of the swap dealer's capital requirements and the capital models, that such models are in substantial compliance with Commission's model requirements and have been approved for use in computing capital by the swap dealer, or an affiliate of the swap dealer, by the Securities and Exchange Commission, a prudential regulator (as defined in § 1.3 of this chapter), a foreign regulatory authority in a jurisdiction that the Commission has found to be eligible for substituted compliance under § 23.106, or a foreign regulatory authority whose capital adequacy requirements are consistent with the capital requirements issued by the Basel Committee on Banking Supervision. A swap dealer also must file an application containing the information required under paragraph (c) of this section with the Commission with its certification. A swap dealer may use such models pending the subsequent approval or denial of the swap dealer's capital model

application by the Commission or the registered futures association of which the swap dealer is a member.

(2) A swap dealer shall revise the certification required under paragraph (f)(1) of this section to address any material changes or revisions to the models, or to reflect any regulatory restrictions placed on the models since the certification was submitted.

(3) A swap dealer shall cease using capital models subject to the certification under paragraph (f)(1) of this section if the regulatory authority that previously approved the models for use by the swap dealer, or by the swap dealer's affiliate, has withdrawn its approval and the Commission or a registered futures association has not approved the models.

[85 FR 57550, Sept. 15, 2020]

§ 23.103 Calculation of market risk exposure requirement and credit risk requirement when models are not approved.

(a) *Non-model approach.* A swap dealer that:

(1) Does not compute its regulatory capital requirements under § 23.101(a)(1)(i), and

(2) Either:

(A) has not received approval from the Commission or from a registered futures association of which the swap dealer is a member to compute its market risk exposure requirement and/or credit risk exposure requirement pursuant to internal models under § 23.102, or

(B) has had its approval to compute its market risk exposure requirement and/or credit risk exposure requirement pursuant to internal models under § 23.102 revoked by the Commission or registered futures association must compute its market risk exposure requirement and/or credit risk exposure requirement pursuant to paragraphs (b) and/or (c) of this section.

(b) *Market risk exposure requirements.* (1) A swap dealer that computes its regulatory capital under § 23.101(a)(1)(ii) or (a)(2) shall compute a market risk capital charge for the positions that the swap dealer holds in its proprietary accounts using the applicable standardized market risk charges

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set forth in §240.18a-1 of this title and §1.17 of this chapter for such positions.

(2) In computing its net capital under §23.101(a)(1)(ii), a swap dealer shall deduct from its tentative net capital the sum of the market risk capital charges computed under paragraph (b)(1) of this section.

(3) In computing its minimum capital requirement under §23.101(a)(2), a swap dealer must add the amount of the market risk capital charge computed under this section to the \$20 million minimum capital requirement.

(c) *Credit risk charges.* (1) A swap dealer that computes regulatory capital under §23.101(a)(1)(ii) shall compute counterparty credit risk charges using the applicable standardized credit risk charges set forth in §240.18a-1 of this title and §1.17 of this chapter for such positions.

(2) In computing its net capital under §23.101(a)(1)(ii), a swap dealer shall reduce its tentative net capital by the sum of the counterparty credit risk charges computed under paragraph (c)(1) of this section.

(3) In computing its minimum capital requirement under §23.101(a)(2), a swap dealer must add the amount of the credit risk charge computed under this section to the \$20 million minimum capital requirement.

[85 FR 57551, Sept. 15, 2020]

§23.104 Equity Withdrawal Restrictions.

(a) *Equity withdrawal restrictions.* The capital of a swap dealer, including the capital of any affiliate or subsidiary whose liabilities or obligations are guaranteed, endorsed, or assumed by the swap dealer may not be withdrawn by action of the swap dealer or its equity holders, or by redemption of shares of stock by the swap dealer or by such affiliates or subsidiaries, or through the payment of dividends or any similar distribution, nor may any unsecured advance or loan be made to an equity holder or employee if, after giving effect thereto and to any other such withdrawals, advances, or loans which are scheduled to occur within six months following such withdrawal, advance or loan, the swap dealer's regulatory capital is less than 120 percent of the minimum regulatory capital re-

quired under §23.101 of this part. The equity withdrawal restrictions, however, do not preclude a swap dealer from making required tax payments or from paying reasonable compensation to equity holders. The Commission may, upon application by the swap dealer, grant relief from this paragraph (a) if the Commission deems such relief to be in the public interest.

(b) *Temporary equity withdrawal restrictions by Commission order.* (1) The Commission may by order restrict, for a period of up to twenty business days, any withdrawal by a swap dealer of capital or any unsecured loan or advance to a stockholder, partner, member, employee or affiliate under such terms and conditions as the Commission deems appropriate in the public interest if the Commission, based on the information available, concludes that such withdrawal, loan or advance may be detrimental to the financial integrity of the swap dealer, or may unduly jeopardize the swap dealer's ability to meet its financial obligations to counterparties or to pay other liabilities which may cause a significant impact on the markets or expose the counterparties and creditors of the swap dealer to loss.

(2) An order temporarily prohibiting the withdrawal of capital shall be rescinded if the Commission determines that the restriction on capital withdrawal should not remain in effect. A hearing on an order temporarily prohibiting withdrawal of capital will be held within two business days from the date of the request in writing by the swap dealer.

[85 FR 57551, Sept. 15, 2020]

§23.105 Financial recordkeeping, reporting and notification requirements for swap dealers and major swap participants.

(a) *Scope.* (1) Except as provided in paragraphs (a)(2) and (a)(3) of this section, a swap dealer or major swap participant must comply with the applicable requirements set forth in paragraphs (b) through (p) of this section.

(2) The requirements in paragraphs (b) through (o) of this section do not apply to any swap dealer or major swap

participant that is subject to the capital requirements of a prudential regulator.

(3) The requirements in paragraph (p) of this section do not apply to any swap dealer or major swap participant that is subject to the capital requirements of the Commission.

(b) *Current books and records.* A swap dealer or major swap participant shall prepare and keep current ledgers or other similar records which show or summarize, with appropriate references to supporting documents, each transaction affecting its asset, liability, income, expense, and capital accounts, and in which all its asset, liability, and capital accounts are classified in accordance with U.S. generally accepted accounting principles, and as otherwise may be necessary for the capital calculations required under § 23.101 of this part: *Provided, however,* that a swap dealer or major swap participant that is not otherwise required to prepare financial statements in accordance with U.S. generally accepted accounting principles, may prepare and keep records required by this section in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. Such records must be maintained in accordance with § 1.31 of this chapter.

(c) *Notices.* (1) A swap dealer or major swap participant who knows or should have known that its regulatory capital at any time is less than the minimum required by § 23.101 of this part, must:

(i) Provide immediate written notice to the Commission and to the registered futures association of which it is a member that the swap dealer's or major swap participant's regulatory capital is less than that required by § 23.101 of this part; and

(ii) Provide together with such notice, documentation in such form as necessary to adequately reflect the swap dealer's or major swap participant's regulatory capital condition as of any date such person's regulatory capital is less than the minimum required. The swap dealer or major swap participant must provide similar documentation for other days as the Commission or registered futures association may request.

(2) A swap dealer or major swap participant who knows or should have known that its regulatory capital at any time is less than 120 percent of its minimum regulatory capital requirement as determined under § 23.101 of this part, must provide written notice to the Commission and to the registered futures association of which it is a member to that effect within 24 hours of such event.

(3) If a swap dealer or major swap participant at any time fails to make or to keep current the books and records required by these regulations, such swap dealer or major swap participant must, on the same day such event occurs, provide written notice to the Commission and to the registered futures association of which it is a member of such fact, specifying the books and records which have not been made or which are not current, and within 48 hours after giving such notice file a written report stating what steps have been and are being taken to correct the situation.

(4) A swap dealer or major swap participant must provide written notice to the Commission and to the registered futures association of which it is a member of a substantial reduction in capital as compared to that last reported in a financial report filed with the Commission pursuant to this section. The notice shall be provided if the swap dealer or major swap participant experiences a 30 percent or more decrease in the amount of capital that the swap dealer or major swap participant holds in excess of its regulatory capital requirement as computed under § 23.101 of this part.

(5) A swap dealer or major swap participant must provide written notice to the Commission and to the registered futures association of which it is a member two business days prior to the withdrawal of capital by action of the equity holders of the swap dealer or major swap participant where the withdrawal exceeds 30 percent of the swap dealer's or major swap participant's excess regulatory capital as computed under § 23.101 of this part.

(6) A swap dealer or major swap participant that is registered with the Securities and Exchange Commission as a security-based swap dealer or as a

major security-based swap participant and files a notice with the Securities and Exchange Commission under 17 CFR 240.18a-8 or 17 CFR 240.17a-11, as applicable, must file a copy of such notice with the Commission and with the registered futures association of which it is a member at the time the security-based swap dealer or major security-based swap participant files the notice with the Securities and Exchange Commission.

(7) A swap dealer or major swap participant must submit a written notice to the Commission and to the registered futures association of which it is a member within 24 hours of the occurrence of any of the following events:

(i) A single counterparty, or group of counterparties that are under common ownership or control, fails to post initial margin or pay variation margin to the swap dealer or major swap participant for swap positions in compliance with § 23.152 and § 23.153 of this part and security-based swap positions in compliance with 17 CFR 240.18a-3(c)(1)(ii) and 17 CFR 240.18a-3(c)(2)(ii), and such initial margin and variation margin, in the aggregate, is equal to or greater than 25 percent of the swap dealer's minimum capital requirement or 25 percent of the major swap participant's tangible net worth;

(ii) Counterparties fail to post initial margin or pay variation margin to the swap dealer or major swap participant for swap positions in compliance with § 23.152 and § 23.153 of this part and security-based swap positions in compliance with 17 CFR 240.18a-3(c)(1)(ii) and 17 CFR 240.18a-3(c)(2)(ii) in an amount that, in the aggregate, exceeds 50 percent of the swap dealer's minimum capital requirement or 50 percent of the major swap participant's tangible net worth;

(iii) A swap dealer or major swap participant fails to post initial margin or pay variation margin to a single counterparty or group of counterparties under common ownership and control for swap positions in compliance with § 23.152 and § 23.153 of this part and security-based swap positions in compliance with 17 CFR 240.18a-3(c)(1)(ii) and 17 CFR 240.18a-3(c)(2)(ii), and such initial margin and variation margin, in the aggregate, exceeds 25 percent of the

swap dealer's minimum capital requirement or 25 percent of the major swap participant's tangible net worth; or

(iv) A swap dealer or major swap participant fails to post initial margin or pay variation margin to counterparties for swap positions in compliance with § 23.152 and § 23.153 of this part and security-based swap positions in compliance with 17 CFR 240.18a-3(c)(1)(ii) and 17 CFR 240.18a-3(c)(2)(ii) in an amount that, in the aggregate, exceeds 50 percent of the swap dealer's minimum capital requirement or 50 percent of the major swap participants tangible net worth.

(d) *Unaudited financial reports.* (1) A swap dealer or major swap participant shall file with the Commission and with a registered futures association of which it is a member monthly financial reports meeting the requirements in paragraph (d)(2) of this section as of the close of business each month; *Provided, however,* that a swap dealer or major swap participant who is subject to the minimum capital requirements of § 23.101(a)(2) or (b), respectively, may file quarterly financial reports meeting the requirements of paragraph (d)(2) of this section as of the close of business each quarter end. Such financial reports must be filed no later than 17 business days after the date for which the report is made.

(2) The financial reports required by this section must be prepared in the English language and be denominated in United States dollars. The financial reports shall include a statement of financial condition, a statement of income/loss, a statement of changes in liabilities subordinated to the claims of general creditors, a statement of changes in ownership equity, a statement demonstrating compliance with and calculation of the applicable regulatory capital requirement under § 23.101, and such further material information as may be necessary to make the required statements not misleading. The monthly report and schedules must be prepared in accordance with generally accepted accounting principles as established in the United States; *Provided, however,* that a swap dealer or major swap participant that

is not otherwise required to prepare financial statements in accordance with U.S. generally accepted accounting principles, may prepare the monthly report and schedules required by this section in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

(3) A swap dealer or major swap participant that is also registered with the Securities and Exchange Commission as a broker or dealer, security-based swap dealer, or a major security-based swap participant and files a monthly Form X-17A-5 FOCUS Report Part II with the Securities and Exchange Commission pursuant to 17 CFR 240.18a-7 or 17 CFR 240.17a-5, as applicable, may file such Form X-17A-5 FOCUS Report Part II with the Commission and with the registered futures association in lieu of the financial reports required under paragraphs (d)(1) and (2) of the section. The swap dealer or major swap participant must file the form with the Commission and registered futures association when it files the Form X-17A-5 FOCUS Report Part II with the Securities and Exchange Commission, *provided, however*, that the swap dealer or major swap participant must file the Form X-17A-5 FOCUS Report Part II with the Commission and registered futures association no later than 17 business days after the end of each month.

(4) A swap dealer or major swap participant that is also registered with the Commission as a futures commission merchant may file a Form 1-FR-FCM in lieu of the monthly financial reports required under paragraphs (d)(1) and (2) of the section.

(e) *Annual audited financial report.* (1) A swap dealer or major swap participant shall file with the Commission and with a registered futures association of which it is a member an annual financial report as of the close of its fiscal year, certified in accordance with paragraph (e)(2) of this section, and including the information specified in paragraph (e)(3) of this section no later than 60 days after the close of the swap dealer's or major swap participant's fiscal year-end: *Provided, however*, that a swap dealer or major swap participant who is subject to the minimum capital requirements of

§ 23.101(a)(2) or (b), respectively, of this part may file an annual financial report no later than 90 days after the close of the swap dealer's and major swap participant's fiscal year-end.

(2) The annual financial report shall be audited and reported upon with an opinion expressed by an independent certified public accountant or independent licensed accountant that is in good standing in the accountant's home jurisdiction.

(3) The annual financial reports shall be prepared in accordance with generally accepted accounting principles as established in the United States, be prepared in the English language, and denominated in United States dollars: *Provided, however*, that a swap dealer or major swap participant that does not otherwise prepare financial statements in accordance with U.S. generally accepted accounting principles, may prepare the annual financial report required by this section in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

(4) The annual financial report must include the following:

(i) A statement of financial condition as of the date for which the report is made;

(ii) Statements of income (loss), cash flows, changes in ownership equity for the period between the date of the most recent certified statement of financial condition filed with the Commission and registered futures association and the date for which the report is made, and changes in liabilities subordinated to claims of general creditors;

(iii) Appropriate footnote disclosures;

(iv) A statement demonstrating the swap dealer's or major swap participant's compliance with and calculation of the applicable regulatory capital requirement under § 23.101 of this part;

(v) A reconciliation of any material differences from the unaudited financial report prepared as of the swap dealer's or major swap participant's year-end date under paragraph (d) of this section and the swap dealer's or major swap participant's annual financial report prepared under this paragraph (e); and

(vi) Such further material information as may be necessary to make the required statements not misleading.

(5) A swap dealer or major swap participant that is also registered with the Securities and Exchange Commission as a broker or dealer, security-based swap dealer, or a major security-based swap participant and files an annual financial report with the Securities and Exchange Commission pursuant to 17 CFR 240.18a-7 or 17 CFR 240.17a-5, as applicable, may file such annual financial report with the Commission and the registered futures association in lieu of the annual financial report required under this paragraph (e). The swap dealer or major swap participant must file its annual financial report with the Commission and the registered futures association at the same time that it files the annual financial report with the Securities and Exchange Commission, provided that the annual financial report is filed with the Commission and registered futures association no later than 60 days from the swap dealer's or major swap participant's fiscal year-end date.

(6) A swap dealer or major swap participant that is also registered with the Commission as a futures commission merchant may file an audited Form 1-FR-FCM in lieu of the annual financial report required under this paragraph (e).

(f) *Oath or affirmation.* Attached to each unaudited and audited financial report must be an oath or affirmation that to the best knowledge and belief of the individual making such oath or affirmation the information contained in the financial report is true and correct. The individual making such oath or affirmation must be: If the swap dealer or major swap participant is a sole proprietorship, the proprietor; if a partnership, any general partner; if a corporation, the duly authorized officer; and, if a limited liability company or limited liability partnership, the chief executive officer, the chief financial officer, the manager, the managing member, or those members vested with the management authority for the limited liability company or limited liability partnership.

(g) *Change of fiscal year-end.* A swap dealer or major swap participant may

not change the date of its fiscal year-end from that used in its most recent annual financial report filed under paragraph (e) of this section unless the swap dealer or major swap participant has requested and received written approval for the change from a registered futures association of which it is a member.

(h) *Additional information requirements.* From time to time the Commission or a registered futures association, may, by written notice, require any swap dealer or major swap participant to file financial or operational information on a daily basis or at such other times as may be specified by the Commission or registered futures association. Such information must be furnished in accordance with the requirements included in the written Commission or registered futures association notice.

(i) *Public disclosure and nonpublic treatment of reports.* (1) A swap dealer or major swap participant must no less than six months after the date of the most recent annual audited financial report make publicly available on its website the following unaudited information:

(i) The statement of financial condition; and

(ii) A statement disclosing the amount of the swap dealer's or major swap participant's regulatory capital as of the end of the quarter and the amount of its minimum regulatory capital requirement, computed in accordance with § 23.101.

(2) A swap dealer or major swap participant must no less than annually make publicly available on its website the following information:

(i) The statement of financial condition from the swap dealer or major swap participant's audited annual financial report including applicable footnotes; and

(ii) A statement disclosing the amount of the swap dealer's or major swap participant's regulatory capital as of the fiscal year end and its minimum regulatory capital requirement, computed in accordance with § 23.101.

(3) Financial information required to be made publicly available pursuant to paragraph (i)(2) of this section must be posted within 10 business days after the

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firm is required to file with the Commission the reports required under paragraph (e)(1).

(4) Financial information required to be made publicly available pursuant to paragraph (i)(1) of this section must be posted within 30 calendar days of the date of the statements required under paragraph (d)(1).

(5) Financial information required to be filed with the Commission pursuant to this section, and not otherwise publicly available, will be treated as exempt from mandatory public disclosure for purposes of the Freedom of Information Act and the Government in the Sunshine Act and parts 145 and 147 of this chapter; *Provided, however*, that all information that is exempt from mandatory public disclosure will be available for official use by any official or employee of the United States or any State, by the National Futures Association and by any other person to whom the Commission believes disclosure of such information is in the public interest.

(j) *Extension of time to file financial reports.* A swap dealer or major swap participant may file a request with the registered futures association of which it is a member for an extension of time to file a monthly unaudited financial report or an annual audited financial report required under paragraphs (d) and (e) of this section. Such request will be approved, conditionally or unconditionally, or disapproved by the registered futures association.

(k) *Additional reporting requirements for swap dealers approved to use models to calculate market risk and credit risk for computing capital requirements.* (1) A swap dealer that has received approval or filed an application for provisional approval under § 23.102(d) from the Commission, or from a registered futures association of which the swap dealer is a member, to use internal models to compute its market risk exposure requirement and credit risk exposure requirement in computing its regulatory capital under § 23.101 must file with the Commission and with the registered futures association of which the swap dealer is a member the following information within 17 business days of the end of each month:

(i) For each product for which the swap dealer calculates a deduction for market risk other than in accordance with a model approved or for which an application of provisional approval has been filed pursuant to § 23.102(d), the product category and the amount of the deduction for market risk;

(ii) A graph reflecting, for each business line, the daily intra-month VaR;

(iii) The aggregate VaR for the swap dealer;

(iv) For each product for which the swap dealer uses scenario analysis, the product category and the deduction for market risk;

(v) Credit risk information on swap, mixed swap and security-based swap exposures including:

(A) Overall current exposure;

(B) Current exposure (including commitments) listed by counterparty for the 15 largest exposures;

(C) The 10 largest commitments listed by counterparty;

(D) The swap dealer's maximum potential exposure listed by counterparty for the 15 largest exposures;

(E) The swap dealer's aggregate maximum potential exposure;

(F) A summary report reflecting the swap dealer's current and maximum potential exposures by credit rating category; and

(G) A summary report reflecting the swap dealer's current exposure for each of the top ten countries to which the swap dealer is exposed (by residence of the main operating group of the counterparty).

(2) A swap dealer that has received approval or filed an application of provisional approval under § 23.102(d) from the Commission or from a registered futures association of which the swap dealer is a member to use internal models to compute its market risk exposure requirement and credit risk exposure requirement in computing its regulatory capital under § 23.101 must file with the Commission and with the registered futures association of which the swap dealer is member the following information within 17 business days of the end of each calendar quarter:

(i) A report identifying the number of business days for which the actual

daily net trading loss exceeded the corresponding daily VaR; and

(ii) The results of back-testing of all internal models used to compute allowable capital, including VaR, and credit risk models, indicating the number of back-testing exceptions.

(l) *Additional position and counterparty reporting requirements.* A swap dealer or major swap participant must provide on a monthly basis to the Commission and to the registered futures association of which the swap dealer or major swap participant is a member the specific information required in Appendix B to Subpart E of this part.

(m) *Margin reporting.* A swap dealer or major swap participant must file with the Commission and with the registered futures association of which the swap dealer or major swap participant is a member the following information as of the end of each month within 17 business days of the end of each month:

(1) The name and address of each custodian holding initial margin or variation margin collected by the swap dealer or major swap participant for uncleared swap transactions pursuant to §§ 23.152 and 23.153;

(2) The amount of initial margin and variation margin collected by the swap dealer or major swap participant that is held by each custodian listed in paragraph (m)(1) of this section;

(3) The aggregate amount of initial margin that the swap dealer or major swap participant is required to collect from swap counterparties pursuant to § 23.152(a);

(4) The name and address of each custodian holding initial margin or variation margin posted by the swap dealer or major swap participant for uncleared swap transaction pursuant to §§ 23.152 and 23.153;

(5) The amount of initial margin and variation margin posted by the swap dealer or major swap participant that is held by each custodian listed in paragraph (m)(4) of this section; and

(6) The aggregate amount of initial margin that the swap dealer or major swap participant is required to post to its swap counterparties pursuant to § 23.152(b).

(n) *Electronic filing.* All filings of financial reports, notices and other information required to be submitted to

the Commission or registered futures association under paragraphs (b) through (m) of this section must be filed in electronic form using a form of user authentication assigned in accordance with procedures established by or approved by the Commission or registered futures association, and otherwise in accordance with instructions issued by or approved by the Commission or registered futures association.

A swap dealer or major swap participant must provide the Commission or registered futures association with the means necessary to read and to process the information contained in such report. Any such electronic submission must clearly indicate the swap dealer or major swap participant on whose behalf such filing is made and the use of such user authentication in submitting such filing will constitute and become a substitute for the manual signature of the authorized signer. In the case of a financial report required under paragraphs (d), (e), or (h) of this section and filed via electronic transmission in accordance with procedures established by or approved by the Commission or registered futures association, such transmission must be accompanied by the user authentication assigned to the authorized signer under such procedures, and the use of such user authentication will constitute and become a substitute for the manual signature of the authorized signer for the purpose of making the oath or affirmation referred to in paragraph (f) of this section.

(o) *Comparability determination for certain financial reporting.* A swap dealer or major swap participant that is subject to the monthly financial reporting requirements of paragraph (d) of this section and the annual financial reporting requirements of paragraph (e) of this section may petition the Commission for a Capital Comparability Determination under § 23.106 to file monthly financial reports and/or annual financial reports prepared in accordance with the rules a foreign regulatory authority in lieu of the requirements contained in this section.

(p) *Quarterly financial reporting and notification provisions for swap dealers*

and major swap participants that are subject to the capital requirements of a prudential regulator. (1) *Scope.* A swap dealer or major swap participant that is subject to the capital requirements of a prudential regulator must comply with the requirements of this paragraph.

(2) *Financial report and position information.* A swap dealer or major swap participant that is subject to the capital requirements of a prudential regulator shall file on a quarterly basis with the Commission the financial reports and specific position information set forth in Appendix C to subpart E of this part. The swap dealer or major swap participant must file Appendix B to subpart E of this part with the Commission within 30 calendar days of the date of the end of the swap dealer's or major swap participant's fiscal quarter.

(3) *Notices.* A swap dealer or major swap participant that is subject to the capital requirements of a prudential regulator must comply with the following written notice provisions:

(i) A swap dealer or major swap participant that files a notice of adjustment of its reported capital category with the Federal Reserve Board, the Office of the Comptroller of the Currency, or the Federal Deposit Insurance Corporation, or files a similar notice with its home country supervisor(s), must give written notice of this fact that same day by transmitting a copy of the notice of the adjustment of reported capital category, or the similar notice provided to its home country supervisor(s), to the Commission and with a registered futures association of which it is a member.

(ii) A swap dealer or major swap participant must provide immediate written notice to the Commission and with a registered futures association of which it is a member that the swap dealer's or major swap participant's regulatory capital is less than the applicable minimum capital requirements set forth in 12 CFR 217.10, 12 CFR 3.10, or 12 CFR 324.10, or the minimum capital requirements established by its home country supervisor(s).

(iii) If a swap dealer or major swap participant at any time fails to make or to keep current the books and records necessary to produce reports required under paragraph (p)(2) of this

section, such swap dealer or major swap participant must, on the same day such event occurs, provide written notice to the Commission and with a registered futures association of which it is a member of such fact, specifying the books and records which have not been made or which are not current, and within 48 hours after giving such notice file a written report stating what steps have been and are being taken to correct the situation.

(4) *Additional information.* From time to time the Commission may, by written notice, require a swap dealer or major swap participant that is subject to the capital rules of a prudential regulator to file financial or operational information on a daily basis or at such other times as may be specified by the Commission. Such information must be furnished in accordance with the requirements included in the written Commission notice.

(5) *Oath or affirmation.* Attached to each financial report, must be an oath or affirmation that to the best knowledge and belief of the individual making such oath or affirmation the information contained in the filing is true and correct. The individual making such oath or affirmation must be: If the swap dealer or major swap participant is a sole proprietorship, the proprietor; if a partnership, any general partner; if a corporation, the duly authorized officer; and, if a limited liability company or limited liability partnership, the chief executive officer, the chief financial officer, the manager, the managing member, or those members vested with the management authority for the limited liability company or limited liability partnership.

(6) *Electronic filing.* All filings of financial reports, notices, and other information made pursuant to this paragraph (p) must be submitted to the Commission in electronic form using a form of user authentication assigned in accordance with procedures established by or approved by the Commission, and otherwise in accordance with instructions issued by or approved by the Commission. Each swap dealer and major swap participant must provide the Commission with the means necessary to read and to process the information contained in such report. Any

such electronic submission must clearly indicate the swap dealer or major swap participant on whose behalf such filing is made and the use of such user authentication in submitting such filing will constitute and become a substitute for the manual signature of the authorized signer. In the case of a financial report required under this paragraph (p) and filed via electronic transmission in accordance with procedures established by or approved by the Commission, such transmission must be accompanied by the user authentication assigned to the authorized signer under such procedures, and the use of such user authentication will constitute and become a substitute for the manual signature of the authorized signer for the purpose of making the oath or affirmation referred to in paragraph (p)(5) of this paragraph. Every notice or report required to be transmitted to the Commission pursuant to this paragraph (p) must also be filed with the Securities and Exchange Commission if the swap dealer or major swap participant also is registered with the Securities and Exchange Commission.

(7) A swap dealer or major swap participant that is subject to rules of a prudential regulator and is also registered with the Securities and Exchange Commission as a security-based swap dealer or a major security-based swap participant and files a quarterly Form X-17A-5 FOCUS Report Part IIC with the Securities and Exchange Commission pursuant to 17 CFR 240.18a-7, may file such Form X-17A-5 FOCUS Report Part IIC with the Commission in lieu of the financial reports required under paragraphs (p)(2) of this section. The swap dealer or major swap participant must file the form with the Commission when it files the Form X-17A-5 FOCUS Report Part IIC with the Securities and Exchange Commission, *provided, however*, that the swap dealer or major swap participant must file the Form X-17A-5 FOCUS Report Part IIC with the Commission no later than 30 calendar days from the date the report is made.

[85 FR 57551, Sept. 15, 2020]

§ 23.106 Substituted compliance for swap dealer's and major swap participant's capital and financial reporting.

(a)(1) *Eligibility requirements.* The following persons may, either individually or collectively, request a Capital Comparability Determination with respect to the Commission's capital adequacy and financial reporting requirements for swap dealers or major swap participants:

(i) A swap dealer or major swap participant that is eligible for substituted compliance under § 23.101 or a trade association or other similar group on behalf of its members who are swap dealers or major swap participants; or

(ii) A foreign regulatory authority that has direct supervisory authority over one or more swap dealers or major swap participants that are eligible for substituted compliance under § 23.101, and such foreign regulatory authority is responsible for administering the relevant foreign jurisdiction's capital adequacy and financial reporting requirements over the swap dealer or major swap participant.

(2) *Submission requirements.* A person requesting a Capital Comparability Determination must electronically submit to the Commission:

(i) A description of the objectives of the relevant foreign jurisdiction's capital adequacy and financial reporting requirements over entities that are subject to the Commission's capital adequacy and financial reporting requirements in this part;

(ii) A description (including specific legal and regulatory provisions) of how the relevant foreign jurisdiction's capital adequacy and financial reporting requirements address the elements of the Commission's capital adequacy and financial reporting requirements for swap dealers and major swap participants, including, at a minimum, the methodologies for establishing and calculating capital adequacy requirements and whether such methodologies comport with any international standards, including Basel-based capital requirements for banking institutions; and

(iii) A description of the ability of the relevant foreign regulatory authority or authorities to supervise and enforce compliance with the relevant foreign jurisdiction's capital adequacy and financial reporting requirements. Such description should discuss the powers of the foreign regulatory authority or authorities to supervise, investigate, and discipline entities for compliance with capital adequacy and financial reporting requirements, and the ongoing efforts of the regulatory authority or authorities to detect and deter violations, and ensure compliance with capital adequacy and financial reporting requirements. The description should address how foreign authorities and foreign laws and regulations address situations where a swap dealer or major swap participant is unable to comply with the foreign jurisdiction's capital adequacy or financial reporting requirements.

(iv) Upon request, such other information and documentation that the Commission deems necessary to evaluate the comparability of the capital adequacy and financial reporting requirements of the foreign jurisdiction.

(v) All supplied documents shall be provided in English, or provided translated to the English language, with currency amounts stated in or converted to USD (conversions to be noted with applicable date).

(3) *Standard of Review.* The Commission will issue a Capital Comparability Determination to the extent that it determines that some or all of the relevant foreign jurisdiction's capital adequacy and financial reporting requirements and related financial recordkeeping and reporting requirements for swap dealing financial intermediaries are comparable to the Commission's corresponding capital adequacy and financial recordkeeping and reporting requirements. In determining whether the requirements are comparable, the Commission may consider all relevant factors, including:

(i) The scope and objectives of the foreign jurisdiction's capital adequacy and financial reporting requirements;

(ii) Whether the relevant foreign jurisdiction's capital adequacy and financial reporting requirements achieve comparable outcomes to the Commis-

sion's corresponding capital adequacy and financial reporting requirements for swap dealers and major swap participants;

(iii) The ability of the relevant regulatory authority or authorities to supervise and enforce compliance with the relevant foreign jurisdiction's capital adequacy and financial reporting requirements; and

(iv) Any other facts or circumstances the Commission deems relevant.

(4) *Reliance.* (i) A swap dealer or major swap participant that is subject to the supervision of a foreign jurisdiction that has received a Capital Comparability Determination from the Commission must file a notice of its intent to comply with the capital adequacy and financial reporting requirements of the foreign jurisdiction with the Commission.

(ii) Any swap dealer or major swap participant that has filed the notice set forth in paragraph (a)(4)(i) of this section and has received confirmation from the Commission that it may comply with a foreign jurisdiction's capital adequacy and financial reporting requirements will be deemed to be in compliance with the Commission's corresponding capital adequacy and financial reporting requirements. Accordingly, if a swap dealer or major swap participant has failed to comply with the foreign jurisdiction's capital adequacy and financial reporting requirements, the Commission may initiate an action for a violation of the Commission's corresponding requirements. All swap dealers and major swap participants, regardless of whether they rely on a Capital Comparability Determination, remain subject to the Commission's examination and enforcement authority.

(5) *Conditions.* In issuing a Capital Comparability Determination, the Commission may impose any terms and conditions it deems appropriate, including certain capital adequacy and financial reporting requirements on swap dealers or major swap participants. The violation of such terms and conditions may constitute a violation of the Commission's capital adequacy or financial reporting requirements and/or result in the modification or

revocation of the Capital Comparability Determination.

(6) *Modifications.* The Commission reserves the right to further condition, modify, suspend or terminate or otherwise restrict a Capital Comparability Determination in the Commission's discretion.

[85 FR 57556, Sept. 15, 2020]

§§ 23.107–23.149 [Reserved]

§ 23.150 Scope.

(a) The margin requirements set forth in §§ 23.150 through 23.161 shall apply to uncleared swaps, as defined in § 23.151, that are executed after the applicable compliance dates set forth in § 23.161.

(b) The requirements set forth in §§ 23.150 through 23.161 shall not apply to a swap if the counterparty:

(1) Qualifies for an exception from clearing under section 2(h)(7)(A) of the Act and implementing regulations;

(2) Qualifies for an exemption from clearing under a rule, regulation, or order issued by the Commission pursuant to section 4(c)(1) of the Act concerning cooperative entities that would otherwise be subject to the requirements of section 2(h)(1)(A) of the Act; or

(3) Satisfies the criteria in section 2(h)(7)(D) of the Act and implementing regulations.

§ 23.151 Definitions applicable to margin requirements.

For the purposes of §§ 23.150 through 23.161:

Bank holding company has the meaning specified in section 2 of the Bank Holding Company Act of 1956 (12 U.S.C. 1841).

Broker has the meaning specified in section 3(a)(4) the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(4)).

Business day means any day other than a Saturday, Sunday, or legal holiday.

Company means a corporation, partnership, limited liability company, business trust, special purpose entity, association, or similar organization.

Counterparty means the other party to a swap to which a covered swap entity is a party.

Covered counterparty means a financial end user with material swaps exposure or a swap entity that enters into a swap with a covered swap entity.

Covered swap entity means a swap dealer or major swap participant for which there is no prudential regulator.

Cross-currency swap means a swap in which one party exchanges with another party principal and interest rate payments in one currency for principal and interest rate payments in another currency, and the exchange of principal occurs on the date the swap is entered into, with a reversal of the exchange of principal at a later date that is agreed upon when the swap is entered into.

Currency of Settlement means a currency in which a party has agreed to discharge payment obligations related to an uncleared swap or a group of uncleared swaps subject to a master netting agreement at the regularly occurring dates on which such payments are due in the ordinary course.

Data source means an entity and/or method from which or by which a covered swap entity obtains prices for swaps or values for other inputs used in a margin calculation.

Day of execution means the calendar day at the time the parties enter into an uncleared swap, provided:

(1) If each party is in a different calendar day at the time the parties enter into the uncleared swap, the day of execution is deemed the latter of the two dates; and

(2) If an uncleared swap is—

(i) Entered into after 4:00 p.m. in the location of a party; or

(ii) Entered into on a day that is not a business day in the location of a party, then the uncleared swap is deemed to have been entered into on the immediately succeeding day that is a business day for both parties, and both parties shall determine the day of execution with reference to that business day.

Dealer has the meaning specified in section 3(a)(5) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(5)).

Depository institution has the meaning specified in section 3(c) of the Federal Deposit Insurance Act (12 U.S.C. 1813(c)).

Eligible collateral means collateral described in § 23.156.

Eligible master netting agreement means a written, legally enforceable agreement provided that:

(1) The agreement creates a single legal obligation for all individual transactions covered by the agreement upon an event of default following any stay permitted by paragraph (2) of this definition, including upon an event of receivership, conservatorship, insolvency, liquidation, or similar proceeding, of the counterparty;

(2) The agreement provides the covered swap entity the right to accelerate, terminate, and close-out on a net basis all transactions under the agreement and to liquidate or set-off collateral promptly upon an event of default, including upon an event of receivership, conservatorship, insolvency, liquidation, or similar proceeding, of the counterparty, provided that, in any such case,

(i) Any exercise of rights under the agreement will not be stayed or avoided under applicable law in the relevant jurisdictions, other than:

(A) In receivership, conservatorship, or resolution under the Federal Deposit Insurance Act (12 U.S.C. 1811 *et seq.*), Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act (12 U.S.C. 5381 *et seq.*), the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended (12 U.S.C. 4617), or the Farm Credit Act of 1971, as amended (12 U.S.C. 2183 and 2279cc), or laws of foreign jurisdictions that are substantially similar to the U.S. laws referenced in this paragraph in order to facilitate the orderly resolution of the defaulting counterparty; or

(B) Where the agreement is subject by its terms to, or incorporates, any of the laws referenced in paragraph (2)(i)(A) of this definition; and

(ii) The agreement may limit the right to accelerate, terminate, and close-out on a net basis all transactions under the agreement and to liquidate or set-off collateral promptly upon an event of default of the counterparty to the extent necessary for the counterparty to comply with the requirements of 12 CFR part 47; 12 CFR part 252, subpart I; or 12 CFR part 382, as applicable;

(3) The agreement does not contain a walkaway clause (that is, a provision that permits a non-defaulting counterparty to make a lower payment than it otherwise would make under the agreement, or no payment at all, to a defaulter or the estate of a defaulter, even if the defaulter or the estate of the defaulter is a net creditor under the agreement); and

(4) A covered swap entity that relies on the agreement for purposes of calculating the margin required by this part must:

(i) Conduct sufficient legal review to conclude with a well-founded basis (and maintain sufficient written documentation of that legal review) that:

(A) The agreement meets the requirements of paragraph (2) of this definition; and

(B) In the event of a legal challenge (including one resulting from default or from receivership, conservatorship, insolvency, liquidation, or similar proceeding) the relevant court and administrative authorities would find the agreement to be legal, valid, binding, and enforceable under the law of the relevant jurisdictions; and

(ii) Establish and maintain written procedures to monitor possible changes in relevant law and to ensure that the agreement continues to satisfy the requirements of this definition.

Financial end user means—

(1) A counterparty that is not a swap entity and that is:

(i) A bank holding company or a margin affiliate thereof; a savings and loan holding company; a U.S. intermediate holding company established or designated for purposes of compliance with 12 CFR 252.153; or a nonbank financial institution supervised by the Board of Governors of the Federal Reserve System under Title I of the Dodd-Frank Wall Street Reform and Consumer Protection Act (12 U.S.C. 5323);

(ii) A depository institution; a foreign bank; a Federal credit union or State credit union as defined in section 2 of the Federal Credit Union Act (12 U.S.C. 1752(1) and (6)); an institution that functions solely in a trust or fiduciary capacity as described in section 2(c)(2)(D) of the Bank Holding Company Act (12 U.S.C. 1841(c)(2)(D)); an industrial loan company, an industrial

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bank, or other similar institution described in section 2(c)(2)(H) of the Bank Holding Company Act (12 U.S.C. 1841(c)(2)(H));

(iii) An entity that is state-licensed or registered as:

(A) A credit or lending entity, including a finance company; money lender; installment lender; consumer lender or lending company; mortgage lender, broker, or bank; motor vehicle title pledge lender; payday or deferred deposit lender; premium finance company; commercial finance or lending company; or commercial mortgage company; except entities registered or licensed solely on account of financing the entity's direct sales of goods or services to customers;

(B) A money services business, including a check casher; money transmitter; currency dealer or exchange; or money order or traveler's check issuer;

(iv) A regulated entity as defined in section 1303(20) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 4502(20)) or any entity for which the Federal Housing Finance Agency or its successor is the primary federal regulator;

(v) Any institution chartered in accordance with the Farm Credit Act of 1971, as amended, 12 U.S.C. 2001 *et seq.* that is regulated by the Farm Credit Administration;

(vi) A securities holding company; a broker or dealer; an investment adviser as defined in section 202(a) of the Investment Advisers Act of 1940 (15 U.S.C. 80b-2(a)); an investment company registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. 80a-1 *et seq.*), a company that has elected to be regulated as a business development company pursuant to section 54(a) of the Investment Company Act of 1940 (15 U.S.C. 80a-53(a)), or a person that is registered with the U.S. Securities and Exchange Commission as a security-based swap dealer or a major security-based swap participant pursuant to the Securities Exchange Act of 1934 (15 U.S.C. 78a *et seq.*).

(vii) A private fund as defined in section 202(a) of the Investment Advisers Act of 1940 (15 U.S.C. 80b-2(a)); an enti-

ty that would be an investment company under section 3 of the Investment Company Act of 1940 (15 U.S.C. 80a-3) but for section 3(c)(5)(C); or an entity that is deemed not to be an investment company under section 3 of the Investment Company Act of 1940 pursuant to Investment Company Act Rule 3a-7 (§ 270.3a-7 of this title) of the Securities and Exchange Commission;

(viii) A commodity pool, a commodity pool operator, a commodity trading advisor, a floor broker, a floor trader, an introducing broker or a futures commission merchant;

(ix) An employee benefit plan as defined in paragraphs (3) and (32) of section 3 of the Employee Retirement Income and Security Act of 1974 (29 U.S.C. 1002);

(x) An entity that is organized as an insurance company, primarily engaged in writing insurance or reinsuring risks underwritten by insurance companies, or is subject to supervision as such by a State insurance regulator or foreign insurance regulator;

(xi) An entity, person, or arrangement that is, or holds itself out as being, an entity, person, or arrangement that raises money from investors, accepts money from clients, or uses its own money primarily for investing or trading or facilitating the investing or trading in loans, securities, swaps, funds, or other assets; or

(xii) An entity that would be a financial end user described in paragraph (1) of this definition or a swap entity if it were organized under the laws of the United States or any State thereof.

(2) The term "financial end user" does not include any counterparty that is:

(i) A sovereign entity;

(ii) A multilateral development bank;

(iii) The Bank for International Settlements and the European Stability Mechanism;

(iv) An entity that is exempt from the definition of financial entity pursuant to section 2(h)(7)(C)(iii) of the Act and implementing regulations;

(v) An affiliate that qualifies for the exemption from clearing pursuant to section 2(h)(7)(D) of the Act; or

(vi) An eligible treasury affiliate that the Commission exempts from the requirements of §§ 23.150 through 23.161 by rule.

Foreign bank means an organization that is organized under the laws of a foreign country and that engages directly in the business of banking outside the United States.

Foreign exchange forward has the meaning specified in section 1a(24) of the Act.

Foreign exchange swap has the meaning specified in section 1a(25) of the Act.

Initial margin means the collateral, as calculated in accordance with § 23.154 that is collected or posted in connection with one or more uncleared swaps.

Initial margin model means an internal risk management model that:

(1) Has been developed and designed to identify an appropriate, risk-based amount of initial margin that the covered swap entity must collect with respect to one or more non-cleared swaps to which the covered swap entity is a party; and

(2) Has been approved by the Commission or a registered futures association pursuant to § 23.154(b).

Initial margin threshold amount means an aggregate credit exposure of \$50 million resulting from all uncleared swaps between a covered swap entity and its margin affiliates on the one hand, and a covered counterparty and its margin affiliates on the other. For purposes of this calculation, an entity shall not count a swap that is exempt pursuant to § 23.150(b).

Major currencies means—

- (1) United States Dollar (USD);
- (2) Canadian Dollar (CAD);
- (3) Euro (EUR);
- (4) United Kingdom Pound (GBP);
- (5) Japanese Yen (JPY);
- (6) Swiss Franc (CHF);
- (7) New Zealand Dollar (NZD);
- (8) Australian Dollar (AUD);
- (9) Swedish Kroner (SEK);
- (10) Danish Kroner (DKK);
- (11) Norwegian Krone (NOK); and
- (12) Any other currency designated by the Commission.

Margin affiliate. A company is a margin affiliate of another company if:

(1) Either company consolidates the other on a financial statement pre-

pared in accordance with U.S. Generally Accepted Accounting Principles, the International Financial Reporting Standards, or other similar standards,

(2) Both companies are consolidated with a third company on a financial statement prepared in accordance with such principles or standards, or

(3) For a company that is not subject to such principles or standards, if consolidation as described in paragraph (1) or (2) of this definition would have occurred if such principles or standards had applied.

Market intermediary means—

- (1) A securities holding company;
- (2) A broker or dealer;
- (3) A futures commission merchant;
- (4) A swap dealer; or
- (5) A security-based swap dealer.

Material swaps exposure for an entity means that, as of September 1 of any year, the entity and its margin affiliates have an average month-end aggregate notional amount of uncleared swaps, uncleared security-based swaps, foreign exchange forwards, and foreign exchange swaps with all counterparties for March, April, and May of that year that exceeds \$8 billion, where such amount is calculated only for the last business day of the month. Activities not carried out in the regular course of business and willfully designed to circumvent calculation at month-end to evade meeting the definition of material swaps exposure shall be prohibited. An entity shall count the average month-end aggregate notional amount of an uncleared swap, an uncleared security-based swap, a foreign exchange forward, or a foreign exchange swap between the entity and a margin affiliate only one time. For purposes of this calculation, an entity shall not count a swap that is exempt pursuant to § 23.150(b) or a security-based swap that qualifies for an exemption under section 3C(g)(10) of the Securities Exchange Act of 1934 (15 U.S.C. 78c-3(g)(4)) and implementing regulations or that satisfies the criteria in section 3C(g)(1) of the Securities Exchange Act of 1934 (15 U.S.C. 78-c3(g)(4)) and implementing regulations.

Minimum transfer amount means a combined initial and variation margin amount under which no actual transfer of funds is required. The minimum

transfer amount shall be \$500,000. Where a counterparty to a covered swap entity owns two or more separately managed accounts, a minimum transfer amount of up to \$50,000 may be applied for each separately managed account.

Multilateral development bank means:

- (1) The International Bank for Reconstruction and Development;
- (2) The Multilateral Investment Guarantee Agency;
- (3) The International Finance Corporation;
- (4) The Inter-American Development Bank;
- (5) The Asian Development Bank;
- (6) The African Development Bank;
- (7) The European Bank for Reconstruction and Development;
- (8) The European Investment Bank;
- (9) The European Investment Fund;
- (10) The Nordic Investment Bank;
- (11) The Caribbean Development Bank;
- (12) The Islamic Development Bank;
- (13) The Council of Europe Development Bank; and
- (14) Any other entity that provides financing for national or regional development in which the U.S. government is a shareholder or contributing member or which the Commission determines poses comparable credit risk.

Non-financial end user means a counterparty that is not a swap dealer, a major swap participant, or a financial end user.

Prudential regulator has the meaning specified in section 1a(39) of the Act.

Savings and loan holding company has the meaning specified in section 10(n) of the Home Owners' Loan Act (12 U.S.C. 1467a(n)).

Securities holding company has the meaning specified in section 618 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (12 U.S.C. 1850a).

Security-based swap has the meaning specified in section 3(a)(68) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(68)).

Separately managed account means an account of a counterparty to a covered swap entity that meets the following requirements:

- (1) The account is managed by an asset manager and governed by an in-

vestment management agreement, pursuant to which the counterparty grants the asset manager authority with respect to a specified amount of the counterparty's assets;

(2) Swaps are entered into between the counterparty and the covered swap entity by the asset manager on behalf of the account pursuant to authority granted by the counterparty through an investment management agreement; and

(3) The swaps of such account are subject to a master netting agreement that does not provide for the netting of initial or variation margin obligations across all such accounts of the counterparty that have swaps outstanding with the covered swap entity.

Sovereign entity means a central government (including the U.S. government) or an agency, department, ministry, or central bank of a central government.

State means any State, commonwealth, territory, or possession of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, American Samoa, Guam, or the United States Virgin Islands.

Swap entity means a person that is registered with the Commission as a swap dealer or major swap participant pursuant to the Act.

Uncleared security-based swap means a security-based swap that is not, directly or indirectly, submitted to and cleared by a clearing agency registered with the Securities and Exchange Commission pursuant to section 17A of the Securities Exchange Act of 1934 (15 U.S.C. 78a-1) or by a clearing agency that the U.S. Securities and Exchange Commission has exempted from registration by rule or order pursuant to section 17A of the Securities Exchange Act of 1934 (15 U.S.C. 78a-1).

Uncleared swap means a swap that is not cleared by a registered derivatives clearing organization, or by a clearing organization that the Commission has exempted from registration by rule or order pursuant to section 5b(h) of the Act.

U.S. Government-sponsored enterprise means an entity established or chartered by the U.S. government to serve

public purposes specified by federal statute but whose debt obligations are not explicitly guaranteed by the full faith and credit of the U.S. government.

Variation margin means collateral provided by a party to its counterparty to meet the performance of its obligation under one or more uncleared swaps between the parties as a result of a change in value of such obligations since the trade was executed or the last time such collateral was provided.

Variation margin amount means the cumulative mark-to-market change in value to a covered swap entity of an uncleared swap, as measured from the date it is entered into (or in the case of an uncleared swap that has a positive or negative value to a covered swap entity on the date it is entered into, such positive or negative value plus any cumulative mark-to-market change in value to the covered swap entity of an uncleared swap after such date), less the value of all variation margin previously collected, plus the value of all variation margin previously posted with respect to such uncleared swap.

[81 FR 695, Jan. 6, 2016, as amended at 83 FR 60346, Nov. 26, 2018; 85 FR 27678, May 11, 2020; 86 FR 246, Jan. 5, 2021; 86 FR 6857, Jan. 25, 2021]

§ 23.152 Collection and posting of initial margin.

(a) *Collection*—(1) *Initial obligation*. On or before the business day after execution of an uncleared swap between a covered swap entity and a covered counterparty, the covered swap entity shall collect initial margin from the covered counterparty in an amount equal to or greater than an amount calculated pursuant to § 23.154, in a form that complies with § 23.156, and pursuant to custodial arrangements that comply with § 23.157.

(2) *Continuing obligation*. The covered swap entity shall continue to hold initial margin from the covered counterparty in an amount equal to or greater than an amount calculated each business day pursuant to § 23.154, in a form that complies with § 23.156, and pursuant to custodial arrangements that comply with § 23.157, until such uncleared swap is terminated or expires.

(b) *Posting*—(1) *Initial obligation*. On or before the business day after execution of an uncleared swap between a covered swap entity and a financial end user with material swaps exposure, the covered swap entity shall post initial margin with the counterparty in an amount equal to or greater than an amount calculated pursuant to § 23.154, in a form that complies with § 23.156, and pursuant to custodial arrangements that comply with § 23.157.

(2) *Continuing obligation*. The covered swap entity shall continue to post initial margin with the counterparty in an amount equal to or greater than an amount calculated each business day pursuant to § 23.154, in a form that complies with § 23.156, and pursuant to custodial arrangements that comply with § 23.157, until such uncleared swap is terminated or expires.

(3) *Minimum transfer amount*. A covered swap entity is not required to collect or to post initial margin pursuant to §§ 23.150 through 23.161 with respect to a particular counterparty unless and until the combined amount of initial margin and variation margin that is required pursuant to §§ 23.150 through 23.161 to be collected or posted and that has not been collected or posted with respect to the counterparty is greater than the minimum transfer amount, as the term is defined in § 23.151.

(c) *Netting*. (1) To the extent that one or more uncleared swaps are executed pursuant to an eligible master netting agreement between a covered swap entity and covered counterparty, a covered swap entity may calculate and comply with the applicable initial margin requirements of §§ 23.150 through 23.161 on an aggregate net basis with respect to all uncleared swaps governed by such agreement, subject to paragraph (c)(2) of this section.

(2)(i) Except as permitted in paragraph (c)(2)(ii) of this section, if an eligible master netting agreement covers uncleared swaps entered into on or after the applicable compliance date set forth in § 23.161, all the uncleared swaps covered by that agreement are subject to the requirements of §§ 23.150 through 23.161 and included in the aggregate netting portfolio for the purposes of calculating and complying

with the margin requirements of §§ 23.150 through 23.161.

(ii) An eligible master netting agreement may identify one or more separate netting portfolios that independently meet the requirements in paragraph (1) of the definition of “eligible master netting agreement” in § 23.151 and to which collection and posting of margin applies on an aggregate net basis separate from and exclusive of any other uncleared swaps covered by the eligible master netting agreement. Any such netting portfolio that contains any uncleared swap entered into on or after the applicable compliance date set forth in § 23.161 is subject to the requirements of §§ 23.150 through 23.161. Any such netting portfolio that contains only uncleared swaps entered into before the applicable compliance date is not subject to the requirements of §§ 23.150 through 23.161.

(d) *Satisfaction of collection and posting requirements.* A covered swap entity shall not be deemed to have violated its obligation to collect or to post initial margin from a covered counterparty if:

(1) The covered counterparty has refused or otherwise failed to provide, or to accept, the required initial margin to, or from, the covered swap entity; and

(2) The covered swap entity has:

(i) Made the necessary efforts to collect or to post the required initial margin, including the timely initiation and continued pursuit of formal dispute resolution mechanisms, including pursuant to § 23.504(b)(4), if applicable, or has otherwise demonstrated upon request to the satisfaction of the Commission that it has made appropriate efforts to collect or to post the required initial margin; or

(ii) Commenced termination of the uncleared swap with the covered counterparty promptly following the applicable cure period and notification requirements.

[81 FR 695, Jan. 6, 2016, as amended at 86 FR 6857, Jan. 25, 2021]

§ 23.153 Collection and posting of variation margin.

(a) *Initial obligation.* On or before the business day after the day of execution of an uncleared swap between a covered

swap entity and a counterparty that is a swap entity or a financial end user, the covered swap entity shall collect the variation margin amount from the counterparty when the amount is positive, or post the variation margin amount with the counterparty when the amount is negative as calculated pursuant to § 23.155 and in a form that complies with § 23.156.

(b) *Continuing obligation.* The covered swap entity shall continue to collect the variation margin amount from, or to post the variation margin amount with, the counterparty as calculated each business day pursuant to § 23.155 and in a form that complies with § 23.156 each business day until such uncleared swap is terminated or expires.

(c) *Minimum transfer amount.* A covered swap entity is not required to collect or to post variation margin pursuant to §§ 23.150 through 23.161 with respect to a particular counterparty unless and until the combined amount of initial margin and variation margin that is required pursuant to §§ 23.150 through 23.161 to be collected or posted and that has not been collected or posted with respect to the counterparty is greater than the minimum transfer amount, as the term is defined in § 23.151.

(d) *Netting.* (1) To the extent that more than one uncleared swap is executed pursuant to an eligible master netting agreement between a covered swap entity and a counterparty, a covered swap entity may calculate and comply with the applicable variation margin requirements of this section on an aggregate basis with respect to all uncleared swaps governed by such agreement subject to paragraph (d)(2) of this section.

(2)(i) Except as permitted in paragraph (d)(2)(ii) of this section, if an eligible master netting agreement covers uncleared swaps entered into on or after the applicable compliance date set forth in § 23.161, all the uncleared swaps covered by that agreement are subject to the requirements of §§ 23.150 through 23.161 and included in the aggregate netting portfolio for the purposes of calculating and complying with the margin requirements of §§ 23.150 through 23.161.

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(ii) An eligible master netting agreement may identify one or more separate netting portfolios that independently meet the requirements in paragraph (1) of the definition of “eligible master netting agreement” in § 23.151 and to which collection and posting of margin applies on an aggregate net basis separate from and exclusive of any other uncleared swaps covered by the eligible master netting agreement. Any such netting portfolio that contains any uncleared swap entered into on or after the applicable compliance date set forth in § 23.161 is subject to the requirements of §§ 23.150 through 23.161. Any such netting portfolio that contains only uncleared swaps entered into before the applicable compliance date is not subject to the requirements of §§ 23.150 through 23.161.

(e) *Satisfaction of collection and payment requirements.* A covered swap entity shall not be deemed to have violated its obligation to collect or to pay variation margin from a counterparty if:

(1) The counterparty has refused or otherwise failed to provide or to accept the required variation margin to or from the covered swap entity; and

(2) The covered swap entity has:

(i) Made the necessary efforts to collect or to post the required variation margin, including the timely initiation and continued pursuit of formal dispute resolution mechanisms, including pursuant to § 23.504(b)(4), if applicable, or has otherwise demonstrated upon request to the satisfaction of the Commission that it has made appropriate efforts to collect or to post the required variation margin; or

(ii) Commenced termination of the uncleared swap with the counterparty promptly following the applicable cure period and notification requirements.

[81 FR 695, Jan. 6, 2016, as amended at 86 FR 6857, Jan. 25, 2021]

§ 23.154 Calculation of initial margin.

(a) *Means of calculation.* (1) Each business day each covered swap entity shall calculate an initial margin amount to be collected from each covered counterparty using:

(i) A risk-based model that meets the requirements of paragraph (b) of this section; or

(ii) The table-based method set forth in paragraph (c) of this section.

(2) Each business day each covered swap entity shall calculate an initial margin amount to be posted with each financial end user with material swaps exposure using:

(i) A risk-based model that meets the requirements of paragraph (b) of this section; or

(ii) The table-based method set forth in paragraph (c) of this section.

(3) Each covered swap entity may reduce the amounts calculated pursuant to paragraphs (a)(1) and (2) of this section by the initial margin threshold amount provided that the reduction does not include any portion of the initial margin threshold amount already applied by the covered swap entity or its margin affiliates in connection with other uncleared swaps with the counterparty or its margin affiliates.

(4) The amounts calculated pursuant to paragraph (a)(3) of this section shall not be less than zero.

(5) A covered swap entity would be deemed to calculate initial margin as required by paragraph (a)(1) of this section if it uses the amount of initial margin calculated by a counterparty that is a swap entity and the initial margin amount is calculated using the swap entity’s risk-based model that meets the requirements of paragraph (b) of this section or is approved by a prudential regulator, provided that initial margin calculated in such manner is used only with respect to uncleared swaps entered into by the covered swap entity and the swap entity for the purpose of hedging the covered swap entity’s swaps with non-swap entity counterparties.

(b) *Risk-based models—(1) Commission or registered futures association approval.*

(i) A covered swap entity shall obtain the written approval of the Commission or a registered futures association to use a model to calculate the initial margin required in §§ 23.150 through 23.161.

(ii) A covered swap entity shall demonstrate that the model satisfies all of the requirements of this section on an ongoing basis.

(iii) A covered swap entity shall notify the Commission and the registered

futures association in writing 60 days prior to:

(A) Extending the use of an initial margin model that has been approved to an additional product type;

(B) Making any change to any initial margin model that has been approved that would result in a material change in the covered swap entity's assessment of initial margin requirements; or

(C) Making any material change to modeling assumptions used by the initial margin model.

(iv) The Commission or the registered futures association may rescind approval of the use of any initial margin model, in whole or in part, or may impose additional conditions or requirements if the Commission or the registered futures association determines, in its discretion, that the model no longer complies with this section.

(2) *Elements of the model.* (i) The initial margin model shall calculate an amount of initial margin that is equal to the potential future exposure of the uncleared swap or netting portfolio of uncleared swaps covered by an eligible master netting agreement. Potential future exposure is an estimate of the one-tailed 99 percent confidence interval for an increase in the value of the uncleared swap or netting portfolio of uncleared swaps due to an instantaneous price shock that is equivalent to a movement in all material underlying risk factors, including prices, rates, and spreads, over a holding period equal to the shorter of ten business days or the maturity of the swap or netting portfolio.

(ii) All data used to calibrate the initial margin model shall be based on an equally weighted historical observation period of at least one year and not more than five years and must incorporate a period of significant financial stress for each broad asset class that is appropriate to the uncleared swaps to which the initial margin model is applied.

(iii) The initial margin model shall use risk factors sufficient to measure all material price risks inherent in the transactions for which initial margin is being calculated. The risk categories shall include, but should not be limited to, foreign exchange or interest rate

risk, credit risk, equity risk, and commodity risk, as appropriate. For material exposures in significant currencies and markets, modeling techniques shall capture spread and basis risk and shall incorporate a sufficient number of segments of the yield curve to capture differences in volatility and imperfect correlation of rates along the yield curve.

(iv) In the case of an uncleared cross-currency swap, the initial margin model need not recognize any risks or risk factors associated with the fixed, physically-settled foreign exchange transactions associated with the exchange of principal embedded in the uncleared cross-currency swap. The initial margin model must recognize all material risks and risk factors associated with all other payments and cash flows that occur during the life of the uncleared cross-currency swap.

(v) The initial margin model may calculate initial margin for an uncleared swap or netting portfolio of uncleared swaps covered by an eligible master netting agreement. It may reflect offsetting exposures, diversification, and other hedging benefits for uncleared swaps that are governed by the same eligible master netting agreement by incorporating empirical correlations within the following broad risk categories, provided the covered swap entity validates and demonstrates the reasonableness of its process for modeling and measuring hedging benefits: Commodity, credit, equity, and foreign exchange or interest rate. Empirical correlations under an eligible master netting agreement may be recognized by the model within each broad risk category, but not across broad risk categories.

(vi) If the initial margin model does not explicitly reflect offsetting exposures, diversification, and hedging benefits between subsets of uncleared swaps within a broad risk category, the covered swap entity shall calculate an amount of initial margin separately for each subset of uncleared swaps for which such relationships are explicitly recognized by the model. The sum of the initial margin amounts calculated for each subset of uncleared swaps within a broad risk category will be used to determine the aggregate initial

margin due from the counterparty for the portfolio of uncleared swaps within the broad risk category.

(vii) The sum of the initial margin calculated for each broad risk category shall be used to determine the aggregate initial margin due from the counterparty.

(viii) The initial margin model shall not permit the calculation of any initial margin to be offset by, or otherwise take into account, any initial margin that may be owed or otherwise payable by the covered swap entity to the counterparty.

(ix) The initial margin model shall include all material risks arising from the nonlinear price characteristics of option positions or positions with embedded optionality and the sensitivity of the market value of the positions to changes in the volatility of the underlying rates, prices, or other material risk factors.

(x) The covered swap entity shall not omit any risk factor from the calculation of its initial margin that the covered swap entity uses in its model unless it has first demonstrated to the satisfaction of the Commission or the registered futures association that such omission is appropriate.

(xi) The covered swap entity shall not incorporate any proxy or approximation used to capture the risks of the covered swap entity's uncleared swaps unless it has first demonstrated to the satisfaction of the Commission or the registered futures association that such proxy or approximation is appropriate.

(xii) The covered swap entity shall have a rigorous and well-defined process for re-estimating, re-evaluating, and updating its internal margin models to ensure continued applicability and relevance.

(xiii) The covered swap entity shall review and, as necessary, revise the data used to calibrate the initial margin model at least annually, and more frequently as market conditions warrant, to ensure that the data incorporate a period of significant financial stress appropriate to the uncleared swaps to which the initial margin model is applied.

(xiv) The level of sophistication of the initial margin model shall be com-

mensurate with the complexity of the swaps to which it is applied. In calculating an initial margin amount, the initial margin model may make use of any of the generally accepted approaches for modeling the risk of a single instrument or portfolio of instruments.

(xv) The Commission or the registered futures association may in its discretion require a covered swap entity using an initial margin model to collect a greater amount of initial margin than that determined by the covered swap entity's initial margin model if the Commission or the registered futures association determines that the additional collateral is appropriate due to the nature, structure, or characteristics of the covered swap entity's transaction(s) or is commensurate with the risks associated with the transaction(s).

(3) [Reserved]

(4) *Periodic review.* A covered swap entity shall periodically, but no less frequently than annually, review its initial margin model in light of developments in financial markets and modeling technologies, and enhance the initial margin model as appropriate to ensure that it continues to meet the requirements for approval in this section.

(5) *Control, oversight, and validation mechanisms.* (i) The covered swap entity shall maintain a risk management unit in accordance with § 23.600(c)(4)(i) that is independent from the business trading unit (as defined in § 23.600).

(ii) The covered swap entity's risk control unit shall validate its initial margin model prior to implementation and on an ongoing basis. The covered swap entity's validation process shall be independent of the development, implementation, and operation of the initial margin model, or the validation process shall be subject to an independent review of its adequacy and effectiveness. The validation process shall include:

(A) An evaluation of the conceptual soundness of (including developmental evidence supporting) the initial margin model;

(B) An ongoing monitoring process that includes verification of processes and benchmarking by comparing the

covered swap entity's initial margin model outputs (estimation of initial margin) with relevant alternative internal and external data sources or estimation techniques. The benchmark(s) must address the model's limitations. When applicable the covered swap entity should consider benchmarks that allow for non-normal distributions such as historical and Monte Carlo simulations. When applicable validation shall include benchmarking against observable margin standards to ensure that the initial margin required is not less than what a derivatives clearing organization would require for similar cleared transactions; and

(C) An outcomes analysis process that includes back testing the model. This analysis shall recognize and compensate for the challenges inherent in back testing over periods that do not contain significant financial stress.

(iii) If the validation process reveals any material problems with the model, the covered swap entity must promptly notify the Commission and the registered futures association of the problems, describe to the Commission and the registered futures association any remedial actions being taken, and adjust the model to ensure an appropriately conservative amount of required initial margin is being calculated.

(iv) In accordance with § 23.600(e)(2), the covered swap entity shall have an internal audit function independent of the business trading unit and the risk management unit that at least annually assesses the effectiveness of the controls supporting the initial margin model measurement systems, including the activities of the business trading units and risk control unit, compliance with policies and procedures, and calculation of the covered swap entity's initial margin requirements under this part. At least annually, the internal audit function shall report its findings to the covered swap entity's governing body, senior management, and chief compliance officer.

(6) *Documentation.* The covered swap entity shall adequately document all material aspects of its model, including management and valuation of uncleared swaps to which it applies, the control, oversight, and validation

of the initial margin model, any review processes and the results of such processes.

(7) *Escalation procedures.* The covered swap entity must adequately document—

(i) Internal authorization procedures, including escalation procedures, that require review and approval of any change to the initial margin calculation under the initial margin model;

(ii) Demonstrable analysis that any basis for any such change is consistent with the requirements of this section; and

(iii) Independent review of such demonstrable analysis and approval.

(c) *Table-based method.* If a model meeting the standards set forth in paragraph (b) of this section is not used, initial margin shall be calculated in accordance with this paragraph.

(1) *Standardized initial margin schedule.*

Asset class	Gross initial margin (% of notional exposure)
Credit: 0–2 year duration	2
Credit: 2–5 year duration	5
Credit: 5+ year duration	10
Commodity	15
Equity	15
Foreign Exchange/Currency	6
Cross Currency Swaps: 0–2 year duration ...	1
Cross Currency Swaps: 2–5 year duration ...	2
Cross Currency Swaps: 5+ year duration	4
Interest Rate: 0–2 year duration	1
Interest Rate: 2–5 year duration	2
Interest Rate: 5+ year duration	4
Other	15

(2) *Net to gross ratio adjustment.* (i) For multiple uncleared swaps subject to an eligible master netting agreement, the initial margin amount under the standardized table shall be computed according to this paragraph.

(ii) Initial Margin = 0.4 × Gross Initial Margin + 0.6 × Net-to-Gross Ratio × Gross Initial Margin, where:

(A) Gross Initial Margin = the sum of the product of each uncleared swap's effective notional amount and the gross initial margin requirement for all uncleared swaps subject to the eligible master netting agreement;

(B) Net-to-Gross Ratio = the ratio of the net current replacement cost to the gross current replacement cost;

(C) Gross Current Replacement cost = the sum of the replacement cost for

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each uncleared swap subject to the eligible master netting agreement for which the cost is positive; and

(D) Net Current Replacement Cost = the total replacement cost for all uncleared swaps subject to the eligible master netting agreement.

(E) In cases where the gross replacement cost is zero, the Net-to-Gross Ratio shall be set to 1.0.

[81 FR 695, Jan. 6, 2016, as amended at 86 FR 246, Jan. 5, 2021]

§ 23.155 Calculation of variation margin.

(a) *Means of calculation.* (1) Each business day each covered swap entity shall calculate variation margin for itself and for each counterparty that is a swap entity or a financial end user using methods, procedures, rules, and inputs that to the maximum extent practicable rely on recently-executed transactions, valuations provided by independent third parties, or other objective criteria.

(2) Each covered swap entity shall have in place alternative methods for determining the value of an uncleared swap in the event of the unavailability or other failure of any input required to value a swap.

(b) *Control mechanisms.* (1) Each covered swap entity shall create and maintain documentation setting forth the variation methodology with sufficient specificity to allow the counterparty, the Commission, the registered futures association, and any applicable prudential regulator to calculate a reasonable approximation of the margin requirement independently.

(2) Each covered swap entity shall evaluate the reliability of its data sources at least annually, and make adjustments, as appropriate.

(3) The Commission or the registered futures association at any time may require a covered swap entity to provide further data or analysis concerning the methodology or a data source, including:

(i) An explanation of the manner in which the methodology meets the requirements of this section;

(ii) A description of the mechanics of the methodology;

(iii) The conceptual basis of the methodology;

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(iv) The empirical support for the methodology; and

(v) The empirical support for the assessment of the data sources.

§ 23.156 Forms of margin.

(a) *Initial margin*—(1) *Eligible collateral.* A covered swap entity shall collect and post as initial margin for trades with a covered counterparty only the following types of collateral:

(i) Immediately available cash funds denominated in:

(A) U.S. dollars;

(B) A major currency;

(C) A currency of settlement for the uncleared swap;

(ii) A security that is issued by, or unconditionally guaranteed as to the timely payment of principal and interest by, the U.S. Department of Treasury;

(iii) A security that is issued by, or unconditionally guaranteed as to the timely payment of principal and interest by, a U.S. government agency (other than the U.S. Department of Treasury) whose obligations are fully guaranteed by the full faith and credit of the U.S. government;

(iv) A security that is issued by, or fully guaranteed as to the payment of principal and interest by, the European Central Bank or a sovereign entity that is assigned no higher than a 20 percent risk weight under the capital rules applicable to swap dealers subject to regulation by a prudential regulator;

(v) A publicly traded debt security issued by, or an asset-backed security fully guaranteed as to the timely payment of principal and interest by, a U.S. Government-sponsored enterprise that is operating with capital support or another form of direct financial assistance received from the U.S. government that enables the repayments of the U.S. Government-sponsored enterprise's eligible securities;

(vi) A security that is issued by, or fully guaranteed as to the payment of principal and interest by, the Bank for International Settlements, the International Monetary Fund, or a multilateral development bank;

(vii) Other publicly-traded debt that has been deemed acceptable as initial margin by a prudential regulator;

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(viii) A publicly traded common equity security that is included in:

(A) The Standard & Poor's Composite 1500 Index or any other similar index of liquid and readily marketable equity securities as determined by the Commission; or

(B) An index that a covered swap entity's supervisor in a foreign jurisdiction recognizes for purposes of including publicly traded common equity as initial margin under applicable regulatory policy, if held in that foreign jurisdiction;

(ix) Securities in the form of redeemable securities in a pooled investment fund representing the security-holder's proportional interest in the fund's net assets and that are issued and redeemed only on the basis of the market value of the fund's net assets prepared each business day after the security-holder makes its investment commitment or redemption request to the fund, if the fund's investments are limited to the following:

(A) Securities that are issued by, or unconditionally guaranteed as to the timely payment of principal and interest by, the U.S. Department of the Treasury, and immediately-available cash funds denominated in U.S. dollars; or

(B) Securities denominated in a common currency and issued by, or fully guaranteed as to the payment of principal and interest by, the European Central Bank or a sovereign entity that is assigned no higher than a 20 percent risk weight under the capital rules applicable to swap dealers subject to regulation by a prudential regulator, and immediately-available cash funds denominated in the same currency; and

(C) Assets of the fund may not be transferred through securities lending, securities borrowing, repurchase agreements, reverse repurchase agreements,

or other means that involve the fund having rights to acquire the same or similar assets from the transferee, or

(x) Gold.

(2) *Prohibition of certain assets.* A covered swap entity may not collect or post as initial margin any asset that is a security issued by:

(i) The covered swap entity or a margin affiliate of the covered swap entity (in the case of posting) or the counterparty or any margin affiliate of the counterparty (in the case of collection);

(ii) A bank holding company, a savings and loan holding company, a U.S. intermediate holding company established or designated for purposes of compliance with 12 CFR 252.153, a foreign bank, a depository institution, a market intermediary, a company that would be any of the foregoing if it were organized under the laws of the United States or any State, or a margin affiliate of any of the foregoing institutions, or

(iii) A nonbank financial institution supervised by the Board of Governors of the Federal Reserve System under Title I of the Dodd-Frank Wall Street Reform and Consumer Protection Act (12 U.S.C. 5323).

(3) *Haircuts.* (i) The value of any eligible collateral collected or posted to satisfy initial margin requirements shall be subject to the sum of the following discounts, as applicable:

(A) An 8 percent discount for initial margin collateral denominated in a currency that is not the currency of settlement for the uncleared swap, except for eligible types of collateral denominated in a single termination currency designated as payable to the non-posting counterparty as part of the eligible master netting agreement; and

(B) The discounts set forth in the following table:

STANDARDIZED HAIRCUT SCHEDULE

Cash in same currency as swap obligation	0.0
Eligible government and related debt (e.g., central bank, multilateral development bank, GSE securities identified in paragraph (a)(1)(v) of this section): Residual maturity less than one-year	0.5
Eligible government and related debt (e.g., central bank, multilateral development bank, GSE securities identified in paragraph (a)(1)(v) of this section): Residual maturity between one and five years	2.0

STANDARDIZED HAIRCUT SCHEDULE—Continued

Eligible government and related debt (e.g., central bank, multilateral development bank, GSE securities identified in paragraph (a)(1)(v) of this section): Residual maturity greater than five years	4.0
Eligible corporate debt (including eligible GSE debt securities not identified in paragraph (a)(1)(v) of this section): Residual maturity less than one-year	1.0
Eligible corporate debt (including eligible GSE debt securities not identified in paragraph (a)(1)(v) of this section): Residual maturity between one and five years	4.0
Eligible corporate debt (including eligible GSE debt securities not identified in paragraph (a)(1)(v) of this section): Residual maturity greater than five years	8.0
Equities included in S&P 500 or related index	15.0
Equities included in S&P 1500 Composite or related index but not S&P 500 or related index	25.0
Gold	15.0
Additional (additive) haircut on asset in which the currency of the swap obligation differs from that of the collateral asset	8.0

(ii) The value of initial margin collateral shall be computed as the product of the cash or market value of the eligible collateral asset times one minus the applicable haircut expressed in percentage terms. The total value of all initial margin collateral is calculated as the sum of those values for each eligible collateral asset.

(b) *Variation margin*—(1) *Eligible collateral*—(i) *Swaps with a swap entity*. (A) A covered swap entity shall post and collect as variation margin to or from a counterparty that is a swap entity only immediately available cash funds that are denominated in: U.S. dollars;

(B) Another major currency; or

(C) The currency of settlement of the uncleared swap.

(ii) *Swaps with a financial end user*. A covered swap entity may post and collect as variation margin to or from a counterparty that is a financial end user any asset that is eligible to be posted or collected as initial margin under paragraphs (a)(1) and (2) of this section.

(2) *Haircuts*. (i) The value of any eligible collateral collected or posted to satisfy variation margin requirements shall be subject to the sum of the following discounts, as applicable:

(A) An 8% discount for variation margin collateral denominated in a currency that is not the currency of settlement for the uncleared swap except for immediately available cash funds denominated in U.S. cash funds or another major currency; and

(B) The discounts for initial margin set forth in the table in paragraph (a)(3)(i)(B) of this section.

(ii) The value of variation margin collateral shall be computed as the product of the cash or market value of the eligible collateral asset times one minus the applicable haircut expressed in percentage terms. The total value of all variation margin collateral shall be calculated as the sum of those values of each eligible collateral asset.

(c) *Monitoring obligation*. A covered swap entity shall monitor the market value and eligibility of all collateral collected and posted to satisfy the margin requirements of §§23.150 through 23.161. To the extent that the market value of such collateral has declined, the covered swap entity shall promptly collect or post such additional eligible collateral as is necessary to maintain compliance with the margin requirements of §§23.150 through 23.161. To the extent that the collateral is no longer eligible, the covered swap entity shall promptly collect or post sufficient eligible replacement collateral to comply with the margin requirements of §§23.150 through 23.161.

(d) *Excess margin*. A covered swap entity may collect or post initial margin or variation margin that is not required pursuant to §§23.150 through 23.161 in any form of collateral.

[81 FR 695, Jan. 6, 2016, as amended at 82 FR 56169, Nov. 28, 2017]

§ 23.157 Custodial arrangements.

(a) *Initial margin posted by covered swap entities*. Each covered swap entity that posts initial margin with respect to an uncleared swap shall require that all funds or other property that the covered swap entity provides as initial

margin be held by one or more custodians that are not the covered swap entity, the counterparty, or margin affiliates of the covered swap entity or the counterparty.

(b) *Initial margin collected by covered swap entities.* Each covered swap entity that collects initial margin required by § 23.152 with respect to an uncleared swap shall require that such initial margin be held by one or more custodians that are not the covered swap entity, the counterparty, or margin affiliates of the covered swap entity or the counterparty.

(c) *Custodial agreement.* Each covered swap entity shall enter into an agreement with each custodian that holds funds pursuant to paragraphs (a) or (b) of this section that:

(1) Prohibits the custodian from rehypothecating, pledging, reusing, or otherwise transferring (through securities lending, securities borrowing, repurchase agreement, reverse repurchase agreement or other means) the collateral held by the custodian except that cash collateral may be held in a general deposit account with the custodian if the funds in the account are used to purchase an asset described in § 23.156(a)(1)(ii) through (x), such asset is held in compliance with this section, and such purchase takes place within a time period reasonably necessary to consummate such purchase after the cash collateral is posted as initial margin; and

(2) Is a legal, valid, binding, and enforceable agreement under the laws of all relevant jurisdictions including in the event of bankruptcy, insolvency, or a similar proceeding.

(3) Notwithstanding paragraph (c)(1) of this section, a custody agreement may permit the posting party to substitute or direct any reinvestment of posted collateral held by the custodian, provided that, with respect to collateral posted or collected pursuant to § 23.152, the agreement requires the posting party, when it substitutes or directs the reinvestment of posted collateral held by the custodian.

(i) To substitute only funds or other property that would qualify as eligible collateral under § 23.156, and for which the amount net of applicable discounts described in § 23.156 would be sufficient

to meet the requirements of § 23.152; and

(ii) To direct reinvestment of funds only in assets that would qualify as eligible collateral under § 23.156, and for which the amount net of applicable discounts described in § 23.156 would be sufficient to meet the requirements of § 23.152.

[81 FR 695, Jan. 6, 2016, as amended at 85 FR 27678, May 11, 2020]

§ 23.158 Margin documentation.

(a) *General requirement.* Each covered swap entity shall execute documentation with each counterparty that complies with the requirements of § 23.504 and that complies with this section, as applicable. For uncleared swaps between a covered swap entity and a counterparty that is a swap entity or a financial end user, the documentation shall provide the covered swap entity with the contractual right and obligation to exchange initial margin and variation margin in such amounts, in such form, and under such circumstances as are required by §§ 23.150 through 23.161. With respect to the minimum transfer amount, if a covered swap entity and a counterparty that is a swap entity or a financial end user agree to have separate minimum transfer amounts for initial and variation margin, the documentation shall specify the amounts to be allocated for initial margin and variation margin. Such amounts, on a combined basis, must not exceed the minimum transfer amount, as the term is defined in § 23.151.

(b) *Contents of the documentation.* The margin documentation shall:

(1) Specify the methods, procedures, rules, inputs, and data sources to be used for determining the value of uncleared swaps for purposes of calculating variation margin;

(2) Describe the methods, procedures, rules, inputs, and data sources to be used to calculate initial margin for uncleared swaps entered into between the covered swap entity and the counterparty; and

(3) Specify the procedures by which any disputes concerning the valuation of uncleared swaps, or the valuation of assets collected or posted as initial

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margin or variation margin may be resolved.

[81 FR 695, Jan. 6, 2016, as amended at 86 FR 6858, Jan. 25, 2021]

§ 23.159 Special rules for affiliates.

(a) *Initial margin.* (1) Except as provided in paragraph (c) of this section, a covered swap entity shall not be required to collect initial margin from a margin affiliate provided that the covered swap entity meets the following conditions:

(i) The swaps are subject to a centralized risk management program that is reasonably designed to monitor and to manage the risks associated with the inter-affiliate swaps; and

(ii) The covered swap entity exchanges variation margin with the margin affiliate in accordance with paragraph (b) of this section.

(2)(i) A covered swap entity shall post initial margin to any margin affiliate that is a swap entity subject to the rules of a Prudential Regulator in an amount equal to the amount that the swap entity is required to collect from the covered swap entity pursuant to the rules of the Prudential Regulator.

(ii) A covered swap entity shall not be required to post initial margin to any other margin affiliate pursuant to §§ 23.150 through 23.161.

(b) *Variation margin.* Each covered swap entity shall post and collect variation margin with each margin affiliate that is a swap entity or a financial end user in accordance with all applicable provisions of §§ 23.150 through 23.161.

(c) *Foreign margin affiliates.* (1) For purposes of this section, the term outward facing margin affiliate means a margin affiliate that enters into swaps with third parties.

(2) Except as provided in paragraph (c)(3) of this section, each covered swap entity shall collect initial margin in accordance with all applicable provisions of §§ 23.150 through 23.161 from each margin affiliate that meets the following criteria:

(i) The margin affiliate is a financial end user;

(ii) The margin affiliate enters into swaps with third parties, or enters into swaps with any other margin affiliate that, directly or indirectly (including

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through a series of transactions), enters into swaps with third parties, for which the provisions of §§ 23.150 through 23.161 would apply if any such margin affiliate were a swap entity; and

(iii) Any such outward facing margin affiliate is located in a jurisdiction that the Commission has not found to be eligible for substituted compliance with regard to the provisions of §§ 23.150 through 23.161 and does not collect initial margin for such swaps in a manner that would comply with the provisions of §§ 23.150 through 23.161.

(3) The custodian for initial margin collected pursuant to paragraph (c)(1) of this section may be the covered swap entity or a margin affiliate of the covered swap entity.

§ 23.160 Cross-border application.

(a) *Definitions.* For purposes of this section only:

(1) *Foreign Consolidated Subsidiary* means a non-U.S. CSE in which an ultimate parent entity that is a U.S. person has a controlling financial interest, in accordance with U.S. GAAP, such that the U.S. ultimate parent entity includes the non-U.S. CSE's operating results, financial position and statement of cash flows in the U.S. ultimate parent entity's consolidated financial statements, in accordance with U.S. GAAP.

(2) *Guarantee* means an arrangement pursuant to which one party to an uncleared swap has rights of recourse against a guarantor, with respect to its counterparty's obligations under the uncleared swap. For these purposes, a party to an uncleared swap has rights of recourse against a guarantor if the party has a conditional or unconditional legally enforceable right to receive or otherwise collect, in whole or in part, payments from the guarantor with respect to its counterparty's obligations under the uncleared swap. In addition, in the case of any arrangement pursuant to which the guarantor has a conditional or unconditional legally enforceable right to receive or otherwise collect, in whole or in part, payments from any other guarantor with respect to the counterparty's obligations under the uncleared swap, such

arrangement will be deemed a guarantee of the counterparty's obligations under the uncleared swap by the other guarantor.

(3) *International standards* mean the margin policy framework for non-cleared, bilateral derivatives issued by the Basel Committee on Banking Supervision and the International Organization of Securities in September 2013, as subsequently updated, revised, or otherwise amended, or any other international standards, principles or guidance relating to margin requirements for non-cleared, bilateral derivatives that the Commission may in the future recognize, to the extent that they are consistent with United States law (including the margin requirements in the Commodity Exchange Act).

(4) *Non-U.S. CSE* means a covered swap entity that is not a U.S. person. The term "non-U.S. CSE" includes a "Foreign Consolidated Subsidiary" or a U.S. branch of a non-U.S. CSE.

(5) *Non-U.S. person* means any person that is not a U.S. person.

(6) *Ultimate parent entity* means the parent entity in a consolidated group in which none of the other entities in the consolidated group has a controlling interest, in accordance with U.S. GAAP.

(7) *United States* means the United States of America, its territories and possessions, any State of the United States, and the District of Columbia.

(8) *U.S. CSE* means a covered swap entity that is a U.S. person.

(9) *U.S. GAAP* means U.S. generally accepted accounting principles.

(10) *U.S. person* means:

(i) A natural person who is a resident of the United States;

(ii) An estate of a decedent who was a resident of the United States at the time of death;

(iii) A corporation, partnership, limited liability company, business or other trust, association, joint-stock company, fund or any form of entity similar to any of the foregoing (other than an entity described in paragraph (a)(10)(iv) or (v) of this section) (a "legal entity"), in each case that is organized or incorporated under the laws of the United States or that has its principal place of business in the

United States, including any branch of such legal entity;

(iv) A pension plan for the employees, officers or principals of a legal entity described in paragraph (a)(10)(iii) of this section, unless the pension plan is primarily for foreign employees of such entity;

(v) A trust governed by the laws of a state or other jurisdiction in the United States, if a court within the United States is able to exercise primary supervision over the administration of the trust;

(vi) A legal entity (other than a limited liability company, limited liability partnership or similar entity where all of the owners of the entity have limited liability) that is owned by one or more persons described in paragraphs (a)(10)(i) through (v) of this section and for which such person(s) bears unlimited responsibility for the obligations and liabilities of the legal entity, including any branch of the legal entity; or

(vii) An individual account or joint account (discretionary or not) where the beneficial owner (or one of the beneficial owners in the case of a joint account) is a person described in paragraphs (a)(10)(i) through (vi) of this section.

(b) *Applicability of margin requirements.* The requirements of §§ 23.150 through 23.161 apply as follows.

(1) *Uncleared swaps of U.S. CSEs or Non-U.S. CSEs whose obligations under the relevant swap are guaranteed by a U.S. person—*(i) *Applicability of U.S. margin requirements; availability of substituted compliance for requirement to post initial margin.* With respect to each uncleared swap entered into by a U.S. CSE or a non-U.S. CSE whose obligations under the swap are guaranteed by a U.S. person, the U.S. CSE or non-U.S. CSE whose obligations under the swap are guaranteed by a U.S. person shall comply with the requirements of §§ 23.150 through 23.161 of this part, provided that the U.S. CSE or non-U.S. CSE whose obligations under the swap are guaranteed by a U.S. person may satisfy its requirement to post initial margin to certain counterparties to the extent provided in paragraph (b)(1)(ii) of this section.

(ii) *Compliance with foreign initial margin collection requirement.* A covered swap entity that is covered by paragraph (b)(1)(i) of this section may satisfy its requirement to post initial margin under this part by posting initial margin in the form and amount, and at such times, that its counterparty is required to collect initial margin pursuant to a foreign jurisdiction's margin requirements, but only to the extent that:

(A) The counterparty is neither a U.S. person nor a non-U.S. person whose obligations under the relevant swap are guaranteed by a U.S. person;

(B) The counterparty is subject to such foreign jurisdiction's margin requirements; and

(C) The Commission has issued a comparability determination under paragraph (c) of this section ("Comparability Determination") with respect to such foreign jurisdiction's requirements regarding the posting of initial margin by the covered swap entity (that is covered in paragraph (b)(1) of this section).

(2) *Uncleared swaps of Non-U.S. CSEs whose obligations under the relevant swap are not guaranteed by a U.S. person—(i) Applicability of U.S. Margin requirements except where an exclusion applies; Availability of substituted compliance.* With respect to each uncleared swap entered into by a non-U.S. CSE whose obligations under the relevant swap are not guaranteed by a U.S. person, the non-U.S. CSE shall comply with the requirements of §§23.150 through 23.161 except to the extent that an exclusion is available under paragraph (b)(2)(ii) of this section, provided that a non-U.S. CSE whose obligations under the relevant swap are not guaranteed by a U.S. person may satisfy its margin requirements under this part to the extent provided in paragraphs (b)(2)(iii) and (b)(2)(iv) of this section.

(ii) *Exclusion.* (A) Except as provided in paragraph (b)(2)(ii)(B) of this section, a non-U.S. CSE shall not be required to comply with the requirements of §§23.150 through 23.161 with respect to each uncleared swap it enters into to the extent that the following conditions are met:

(1) The non-U.S. CSE's obligations under the relevant swap are not guaranteed by a U.S. person;

(2) The non-U.S. CSE is not a U.S. branch of a non-U.S. CSE;

(3) The non-U.S. CSE is not a Foreign Consolidated Subsidiary; and

(4) The counterparty to the uncleared swap is a non-U.S. person (excluding a Foreign Consolidated Subsidiary or the U.S. branch of a non-U.S. CSE), whose obligations under the relevant swap are not guaranteed by a U.S. person.

(B) Notwithstanding paragraph (b)(2)(ii)(A) of this section, any uncleared swap of a non-U.S. CSE that meets the conditions for the Exclusion set forth in paragraph (b)(2)(ii)(A) must nevertheless comply with §§23.150 through 23.161 if:

(1) The uncleared swap of the non-U.S. CSE is not covered by a Comparability Determination with respect to the initial margin collection requirements in the relevant foreign jurisdiction in accordance with paragraph (c) of this section; and

(2) The non-U.S. CSE enters into an inter-affiliate swap(s), transferring any risk arising out of the uncleared swap described in paragraph (b)(2)(ii)(B)(1) of this section directly or indirectly, to a margin affiliate (as the term "margin affiliate" is defined in §23.151 of this part) that is a U.S. CSE or a U.S. Guaranteed CSE.

(iii) *Availability of substituted compliance where the counterparty is not a U.S. CSE or a non-U.S. CSE whose obligations under the relevant swap are guaranteed by a U.S. person.* Except to the extent that an exclusion is available under paragraph (b)(2)(ii) of this section, with respect to each uncleared swap entered into by a non-U.S. CSE whose obligations under the relevant swap are not guaranteed by a U.S. person with a counterparty (except where the counterparty is either a U.S. CSE or a non-U.S. CSE whose obligations under the relevant swap are guaranteed by a U.S. person), the non-U.S. CSE whose obligations under the relevant swap are not guaranteed by a U.S. person may satisfy margin requirements under this part by complying with the margin requirements of a foreign jurisdiction to which such non-U.S. CSE (whose obligations under the relevant swap are

not guaranteed by a U.S. person) is subject, but only to the extent that the Commission has issued a Comparability Determination under paragraph (c) of this section for such foreign jurisdiction.

(iv) *Availability of substituted compliance where the counterparty is a U.S. CSE or a non-U.S. CSE whose obligations under the relevant swap are guaranteed by a U.S. person.* With respect to each uncleared swap entered into by a non-U.S. CSE whose obligations under the relevant swap are not guaranteed by a U.S. person with a counterparty that is a U.S. CSE or a non-U.S. CSE whose obligations under the relevant swap are guaranteed by a U.S. person, the non-U.S. CSE (whose obligations under the relevant swap are not guaranteed by a U.S. person) may satisfy its requirement to collect initial margin under this part by collecting initial margin in the form and amount, and at such times and under such arrangements, that the non-U.S. CSE (whose obligations under the relevant swap are not guaranteed by a U.S. Person) is required to collect initial margin pursuant to a foreign jurisdiction's margin requirements, provided that:

(A) The non-U.S. CSE (whose obligations under the relevant swap are not guaranteed by a U.S. person) is subject to the foreign jurisdiction's regulatory requirements; and

(B) The Commission has issued a Comparability Determination with respect to such foreign jurisdiction's margin requirements.

(c) *Comparability determinations—(1) Eligibility requirements.* The following persons may, either individually or collectively, request a Comparability Determination with respect to some or all of the Commission's margin requirements:

(i) A covered swap entity that is eligible for substituted compliance under this section; or

(ii) A foreign regulatory authority that has direct supervisory authority over one or more covered swap entities and that is responsible for administering the relevant foreign jurisdiction's margin requirements.

(2) *Submission requirements.* Persons requesting a Comparability Determina-

tion should provide the Commission (either by hard copy or electronically):

(i) A description of the objectives of the relevant foreign jurisdiction's margin requirements;

(ii) A description of how the relevant foreign jurisdiction's margin requirements address, at minimum, each of the following elements of the Commission's margin requirements. Such description should identify the specific legal and regulatory provisions that correspond to each element and, if necessary, whether the relevant foreign jurisdiction's margin requirements do not address a particular element:

(A) The products subject to the foreign jurisdiction's margin requirements;

(B) The entities subject to the foreign jurisdiction's margin requirements;

(C) The treatment of inter-affiliate derivative transactions;

(D) The methodologies for calculating the amounts of initial and variation margin;

(E) The process and standards for approving models for calculating initial and variation margin models;

(F) The timing and manner in which initial and variation margin must be collected and/or paid;

(G) Any threshold levels or amounts;

(H) Risk management controls for the calculation of initial and variation margin;

(I) Eligible collateral for initial and variation margin;

(J) The requirements of custodial arrangements, including segregation of margin and rehypothecation;

(K) Margin documentation requirements; and

(L) The cross-border application of the foreign jurisdiction's margin regime.

(iii) A description of the differences between the relevant foreign jurisdiction's margin requirements and the International Standards;

(iv) A description of the ability of the relevant foreign regulatory authority or authorities to supervise and enforce compliance with the relevant foreign jurisdiction's margin requirements. Such description should discuss the

powers of the foreign regulatory authority or authorities to supervise, investigate, and discipline entities for compliance with the margin requirements and the ongoing efforts of the regulatory authority or authorities to detect and deter violations of, and ensure compliance with, the margin requirements; and

(v) Copies of the foreign jurisdiction's margin requirements (including an English translation of any foreign language document);

(vi) Any other information and documentation that the Commission deems appropriate.

(3) *Standard of review.* The Commission will issue a Comparability Determination to the extent that it determines that some or all of the relevant foreign jurisdiction's margin requirements are comparable to the Commission's corresponding margin requirements. In determining whether the requirements are comparable, the Commission will consider all relevant factors, including:

(i) The scope and objectives of the relevant foreign jurisdiction's margin requirements;

(ii) Whether the relevant foreign jurisdiction's margin requirements achieve comparable outcomes to the Commission's corresponding margin requirements;

(iii) The ability of the relevant regulatory authority or authorities to supervise and enforce compliance with the relevant foreign jurisdiction's margin requirements; and

(iv) Any other facts and circumstances the Commission deems relevant.

(4) *Reliance.* Any covered swap entity that, in accordance with a Comparability Determination, complies with a foreign jurisdiction's margin requirements, would be deemed to be in compliance with the Commission's corresponding margin requirements. Accordingly, if the Commission determines that a covered swap entity has failed to comply with the foreign jurisdiction's margin requirements, it could initiate an action for a violation of the Commission's margin requirements. All covered swap entities, regardless of whether they rely on a Comparability Determination, remain subject to the

Commission's examination and enforcement authority.

(5) *Conditions.* In issuing a Comparability Determination, the Commission may impose any terms and conditions it deems appropriate.

(6) *Modifications.* The Commission reserves the right to further condition, modify, suspend, terminate or otherwise restrict a Comparability Determination in the Commission's discretion.

(7) *Delegation of authority.* The Commission hereby delegates to the Director of the Division of Swap Dealer and Intermediary Oversight, or such other employee or employees as the Director may designate from time to time, the authority to request information and/or documentation in connection with the Commission's issuance of a Comparability Determination.

(d) *Non-netting jurisdiction requirements.* Except as provided in paragraph (e) of this section, if a CSE cannot conclude after sufficient legal review with a well-founded basis that the netting agreement described in § 23.152(c) meets the definition of "eligible master netting agreement" set forth in § 23.151, the CSE must treat the uncleared swaps covered by the agreement on a gross basis for the purposes of calculating and complying with the requirements of § 23.152(a) and § 23.153(a) to collect margin, but the CSE may net those uncleared swaps in accordance with § 23.152(c) and § 23.153(d) for the purposes of calculating and complying with the requirements of this part to post margin. A CSE that relies on this paragraph (d) must have policies and procedures ensuring that it is in compliance with the requirements of this paragraph, and maintain books and records properly documenting that all of the requirements of this paragraph (d) are satisfied.

(e) *Jurisdictions Where Compliance with Custodial Arrangement Requirements is Unavailable.* Sections 23.152(b), 23.157(b), and paragraph (d) of this section do not apply to an uncleared swap entered into by a Foreign Consolidated Subsidiary or a foreign branch of a U.S. CSE if:

(1) Inherent limitations in the legal or operational infrastructure in the applicable foreign jurisdiction make it

impracticable for the CSE and its counterparty to post any form of eligible initial margin collateral recognized pursuant to § 23.156 in compliance with the custodial arrangement requirements of § 23.157;

(2) The CSE is subject to foreign regulatory restrictions that require the CSE to transact in uncleared swaps with the counterparty through an establishment within the foreign jurisdiction and do not accommodate the posting of collateral for the uncleared swap in compliance with the custodial arrangements of § 23.157 in the United States or a jurisdiction for which the Commission has issued a comparability determination under paragraph (c) of this section with respect to § 23.157;

(3) The counterparty to the uncleared swap is a non-U.S. person that is not a CSE, and the counterparty's obligations under the uncleared swap are not guaranteed by a U.S. person;

(4) The CSE collects initial margin for the uncleared swap in accordance with § 23.152(a) in the form of cash pursuant to § 23.156(a)(1)(i), and posts and collects variation margin in accordance with § 23.153(a) in the form of cash pursuant to § 23.156(a)(1)(i);

(5) For each broad risk category, as set out in § 23.154(b)(2)(v), the total outstanding notional value of all uncleared swaps in that broad risk category, as to which the CSE is relying on this paragraph (e), may not exceed 5% of the CSE's total outstanding notional value for all uncleared swaps in the same broad risk category;

(6) The CSE has policies and procedures ensuring that it is in compliance with the requirements of this paragraph (e); and

(7) The CSE maintains books and records properly documenting that all of the requirements of this paragraph (e) are satisfied.

[81 FR 34847, May 31, 2016]

§ 23.161 Compliance dates.

(a) Covered swap entities shall comply with the minimum margin requirements for uncleared swaps on or before the following dates for uncleared swaps entered into on or after the following dates:

(1) September 1, 2016 for the requirements in § 23.152 for initial margin and

in § 23.153 for variation margin for any uncleared swaps where both—

(i) The covered swap entity combined with all its margin affiliates; and

(ii) Its counterparty combined with all its margin affiliates, have an average daily aggregate notional amount of uncleared swaps, uncleared security-based swaps, foreign exchange forwards, and foreign exchange swaps in March, April, and May 2016 that exceeds \$3 trillion, where such amounts are calculated only for business days; and where

(iii) In calculating the amounts in paragraphs (a)(1)(i) and (ii) of this section, an entity shall count the average daily notional amount of an uncleared swap, an uncleared security-based swap, a foreign-exchange forward, or a foreign exchange swap between the entity and a margin affiliate only one time and shall not count a swap that is exempt pursuant to § 23.150(b) or a security-based swap that is exempt pursuant to section 15F(e) of the Securities Exchange Act of 1934 (15 U.S.C. 78o-10(e)).

(2) March 1, 2017 for the requirements in § 23.153 for variation margin for any other covered swap entity for uncleared swaps entered into with any other counterparty.

(3) September 1, 2017 for the requirements in § 23.152 for initial margin for any uncleared swaps where both—

(i) The covered swap entity combined with all its margin affiliates; and

(ii) Its counterparty combined with all its margin affiliates, have an average daily aggregate notional amount of uncleared swaps, uncleared security-based swaps, foreign exchange forwards, and foreign exchange swaps in March, April, and May 2017 that exceeds \$2.25 trillion, where such amounts are calculated only for business days; and where

(iii) In calculating the amounts in paragraphs (a)(3)(i) and (ii) of this section, an entity shall count the average daily notional amount of an uncleared swap, an uncleared security-based swap, a foreign-exchange forward, or a foreign exchange swap between the entity and a margin affiliate only one time and shall not count a swap that is

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exempt pursuant to § 23.150(b) or a security-based swap that is exempt pursuant to section 15F(e) of the Securities Exchange Act of 1934 (15 U.S.C. 78o–10(e)).

(4) September 1, 2018, for the requirements in § 23.152 for initial margin for any uncleared swaps where both—

(i) The covered swap entity combined with all its margin affiliates; and

(ii) Its counterparty combined with all its margin affiliates have an average daily aggregate notional amount of uncleared swaps, uncleared security-based swaps, foreign exchange forwards, and foreign exchange swaps in March, April, and May 2018 that exceeds \$1.5 trillion, where such amounts are calculated only for business days; and where

(iii) In calculating the amounts in paragraphs (a)(4)(i) and (ii) of this section, an entity shall count the average daily notional amount of an uncleared swap, an uncleared security-based swap, a foreign-exchange forward, or a foreign exchange swap between the entity and a margin affiliate only one time and shall not count a swap that is exempt pursuant to § 23.150(b) or a security-based swap that is exempt pursuant to section 15F(e) of the Securities Exchange Act of 1934 (15 U.S.C. 78o–10(e)).

(5) September 1, 2019 for the requirements in § 23.152 for initial margin for any uncleared swaps where both—

(i) The covered swap entity combined with all its margin affiliates; and

(ii) Its counterparty combined with all its margin affiliates have an average daily aggregate notional amount of uncleared swaps, uncleared security-based swaps, foreign exchange forwards, and foreign exchange swaps in March, April, and May 2019 that exceeds \$0.75 trillion, where such amounts are calculated only for business days; and where

(iii) In calculating the amounts in paragraphs (a)(5)(i) and (ii) of this section, an entity shall count the average daily notional amount of an uncleared swap, an uncleared security-based swap, a foreign-exchange forward, or a foreign exchange swap between the entity and a margin affiliate only one time and shall not count a swap that is exempt pursuant to § 23.150(b) or a secu-

rity-based swap that is exempt pursuant to section 15F(e) of the Securities Exchange Act of 1934 (15 U.S.C. 78o–10(e)).

(6) September 1, 2021 for the requirements in § 23.152 for initial margin for any uncleared swaps where both—

(i) The covered swap entity combined with all its margin affiliates; and

(ii) Its counterparty combined with all its margin affiliates have an average daily aggregate notional amount of uncleared swaps, uncleared security-based swaps, foreign exchange forwards, and foreign exchange swaps in March, April, and May 2021 that exceeds \$50 billion, where such amounts are calculated only for business days; and where

(iii) In calculating the amounts in paragraphs (a)(6)(i) and (ii) of this section, an entity shall count the average daily notional amount of an uncleared swap, an uncleared security-based swap, a foreign exchange forward, or a foreign exchange swap between the entity and a margin affiliate only one time and shall not count a swap that is exempt pursuant to § 23.150(b) or a security-based swap that is exempt pursuant to section 15F(e) of the Securities Exchange Act of 1934 (15 U.S.C. 78o.10(e)).

(7) September 1, 2022 for the requirements in § 23.152 for initial margin for any other covered swap entity for uncleared swaps entered into with any other counterparty.

(b) Once a covered swap entity and its counterparty must comply with the margin requirements for uncleared swaps based on the compliance dates in paragraph (a) of this section, the covered swap entity and its counterparty shall remain subject to the requirements of §§ 23.150 through 23.161 with respect to that counterparty.

(c)(1) If a covered swap entity's counterparty changes its status such that an uncleared swap with that counterparty becomes subject to a stricter margin requirement under §§ 23.150 through 23.161 (for example, if the counterparty's status changes from a financial end user without material swaps exposure to a financial end user with material swaps exposure), then the covered swap entity shall comply with the stricter margin requirements

for any uncleared swaps entered into with that counterparty after the counterparty changes its status.

(2) If a covered swap entity's counterparty changes its status such that an uncleared swap with that counterparty becomes subject to less strict margin requirement under §§23.150 through 23.161 (for example, if the counterparty's status changes from a financial end user with material swaps exposure to a financial end user without material swaps exposure), then the covered swap entity may comply with the less strict margin requirements for any uncleared swaps entered into with that counterparty after the counterparty changes its status as well as for any outstanding uncleared swap entered into after the applicable compliance date under paragraph (a) of this section and before the counterparty changed its status.

(d) For purposes of determining whether an uncleared swap was entered into prior to the applicable compliance date under this section, a covered swap entity may disregard:

(1) Amendments to the uncleared swap that were entered into solely to comply with the requirements of 12 CFR part 47; 12 CFR part 252, subpart I; or 12 CFR part 382, as applicable; or

(2) Amendments to the uncleared swap that were entered into in compliance with each of the following conditions:

(i) The law of the European Union ceases to apply to the United Kingdom pursuant to Article 50(3) of the Treaty on European Union, without conclusion of a withdrawal agreement between the United Kingdom and the European Union pursuant to Article 50(2) thereof; and

(ii) Solely in connection with a party to the swap's planning for or response to the event described in paragraph (d)(2)(i) of this section, one or both parties to the swap transfers the swap to its margin affiliate, or a branch or other authorized form of establishment of the transferor, and the parties make no other transfers of the swap; and

(A) A covered swap entity is a transferee from a party to the swap; or

(B) A covered swap entity is a remaining party to the swap, and the transferor represents to the covered

swap entity that the transferee is a margin affiliate, or a branch or other authorized form of establishment of the transferor, and the transfer was made solely in connection with the transferor's planning for or response to the event described in paragraph (d)(2)(i) of this section; and

(iii) The amendments do not modify any of the following: the payment amount calculation methods, the maturity date, or the notional amount of the swap; and

(iv) The amendments take effect no earlier than the date of the event described in paragraph (d)(2)(i) of this section transpires; and

(v) The amendments take effect no later than:

(A) The date that is one year after the date of the event described in paragraph (d)(2)(i) of this section; or

(B) Such other date permitted by transitional provisions under Article 35 of Commission Delegated Regulation (EU) No. 2016/2251, as amended.

[81 FR 695, Jan. 6, 2016, as amended at 83 FR 60346, Nov. 26, 2018; 84 FR 12071, Apr. 1, 2019; 85 FR 19882, Apr. 9, 2020; 85 FR 41352, July 10, 2020; 85 FR 71251, Nov. 9, 2020]

§§ 23.162–23.199 [Reserved]

APPENDIX A TO SUBPART E OF PART 23— APPLICATION FOR INTERNAL MODELS TO COMPUTE MARKET RISK EXPO- SURE REQUIREMENT AND CREDIT RISK EXPOSURE REQUIREMENT

(a) A swap dealer that is requesting the approval of the Commission or the approval of a registered futures association of which the swap dealer is a member to use internal models to compute its market risk exposure requirement and credit risk exposure requirement under §23.102 must include the following information as part of its application:

(1) An executive summary of the information within its application and, if applicable, an identification of the ultimate holding company of the swap dealer;

(2) A list of the categories of positions that the swap dealer holds in its proprietary accounts and a brief description of the methods that the swap dealer will use to calculate deductions for market risk and credit risk on those categories of positions;

(3) A description of the mathematical models used by the swap dealer under this Appendix A to compute the VaR of the swap dealer's positions; the stressed VaR of the swap dealer's positions; the specific risk of

the swap dealer's positions subject to specific risk; comprehensive risk of the swap dealer's positions; and the incremental risk of the swap dealer's positions, and deductions for credit risk exposure. The description should encompass the creation, use, and maintenance of the mathematical models; a description of the swap dealer's internal risk management controls over the models, including a description of each category of persons who may input data into the models; if a mathematical model incorporates empirical correlations across risk categories, a description of the process for measuring correlations; a description of the back-testing procedures the swap dealer will use to back-test the mathematical models; a description of how each mathematical model satisfies the applicable qualitative and quantitative requirements set forth in this Appendix A and a statement describing the extent to which each mathematical model used to compute deductions for market risk exposures and credit risk exposures will be used as part of the risk analyses and reports presented to senior management;

(4) If the swap dealer is applying to the Commission for approval or a registered futures association to use scenario analysis to calculate deductions for market risk for certain positions, a list of those types of positions, a description of how those deductions will be calculated using scenario analysis, and an explanation of why each scenario analysis is appropriate to calculate deductions for market risk on those types of positions;

(5) A description of how the swap dealer will calculate current exposure;

(6) A description of how the swap dealer will determine internal credit ratings of counterparties and internal credit risk-weights of counterparties, if applicable;

(7) For each instance in which a mathematical model to be used by the swap dealer to calculate a deduction for market risk exposure or to calculate maximum potential exposure for a particular product or counterparty differs from the mathematical model used by the swap dealer's ultimate holding company or the swap dealer's affiliates (if applicable) to calculate an allowance for market risk exposure or to calculate maximum potential exposure for that same product or counterparty, a description of the difference(s) between the mathematical models;

(8) A description of the swap dealer's process of re-estimating, re-evaluating, and updating internal models to ensure continued applicability and relevance; and

(9) Sample risk reports that are provided to management at the swap dealer who are responsible for managing the swap dealer's risk.

(b) The application of the swap dealer shall be supplemented by other information relat-

ing to the internal risk management control system, mathematical models, and financial position of the swap dealer that the Commission or a registered futures association may request to complete its review of the application.

(c) A person who files an application with the Commission pursuant to this appendix for which it seeks confidential treatment may clearly mark each page or segregable portion of each page with the words "Confidential Treatment Requested." All information submitted in connection with the application will be accorded confidential treatment by the Commission, to the extent permitted by law.

(d) If any of the information filed with the Commission or a registered futures association as part of the application of the swap dealer is found to be or becomes inaccurate before the Commission or a registered futures association approves the application, the swap dealer must notify the Commission or the registered futures association promptly and provide the Commission or the registered futures association with a description of the circumstances in which the information was found to be or has become inaccurate along with updated, accurate information.

(e) The Commission or the registered futures association may approve the application or an amendment to the application, in whole or in part, subject to any conditions or limitations the Commission or the registered futures association may require if the Commission or the registered futures association finds the approval to be appropriate in the public interest, after determining, among other things, whether the swap dealer has met all the requirements of this Appendix A.

(f) A swap dealer shall amend its application under this Appendix A and submit the amendment to the Commission and the registered futures association for approval before it may materially change a mathematical model used to calculate market risk exposure requirements or credit risk exposure requirements or before it may materially change its internal risk management control system with respect to such model.

(g) As a condition for a swap dealer to use internal models to compute deductions for market risk exposure and credit risk exposure under this Appendix A, the swap dealer agrees that:

(1) It will notify the Commission and the registered futures association 45 days before it ceases to use internal models to compute deductions for market risk exposure and credit risk exposure under this Appendix A; and

(2) The Commission or the registered futures association may determine that the notice will become effective after a shorter or longer period of time if the swap dealer consents or if the Commission determines

that a shorter or longer period of time is appropriate in the public interest.

(h) The Commission or the registered futures association may by written order revoke a swap dealer's approval to use internal models to compute market risk exposures and credit risk exposures on certain credit exposures arising from transactions in derivatives instruments if the Commission or the registered futures association finds that such approval is no longer appropriate in the public interest. In making its finding, the Commission or the registered futures association will consider the compliance history of the swap dealer related to its use of models and the swap dealer's compliance with its internal risk management controls. If the Commission or the registered futures association withdraws all or part of a swap dealer's approval to use internal models, the swap dealer shall compute market risk exposure requirements and credit risk exposure requirements in accordance with §23.103.

(i) *VaR models.* A value-at-risk ("VaR") model must meet the following minimum requirements in order to be approved:

(1) *Qualitative requirements.* (i) The VaR model used to calculate market risk exposure or credit risk exposure for a position must be integrated into the daily internal risk management system of the swap dealer;

(ii) The VaR model must be reviewed both periodically and annually. The periodic review may be conducted by personnel of the swap dealer that are independent from the personnel that perform the VaR model calculations. The annual review must be conducted by a qualified third party service. The review must include:

(A) An evaluation of the conceptual soundness of, and empirical support for, the internal models;

(B) An ongoing monitoring process that includes verification of processes and the comparison of the swap dealer's model outputs with relevant internal and external data sources or estimation techniques; and

(C) An outcomes analysis process that includes back-testing. This process must include a comparison of the changes in the swap dealer's portfolio value that would have occurred were end-of-day positions to remain unchanged (therefore, excluding fees, commissions, reserves, net interest income, and intraday trading) with VaR-based measures during a sample period not used in model development.

(iii) For purposes of computing market risk, the swap dealer must determine the appropriate multiplication factor as follows:

(A) Beginning three months after the swap dealer begins using the VaR model to calculate the market risk exposure, the swap dealer must conduct monthly back-testing of the model by comparing its actual daily net trading profit or loss with the corresponding VaR measure generated by the VaR model,

using a 99 percent, one-tailed confidence level with price changes equivalent to a one business-day movement in rates and prices, for each of the past 250 business days, or other period as may be appropriate for the first year of its use;

(B) On the last business day of each quarter, the swap dealer must identify the number of back-testing exceptions of the VaR model using actual daily net trading profit and loss, as that term is defined in §§23.100. An exception has occurred when for a business day the actual net trading loss, if any, exceeds the corresponding VaR measure. The counting period shall be for the prior 250 business days except that during the first year of use of the model another appropriate period may be used; and

(C) The swap dealer must use the multiplication factor indicated in Table 1 of this Appendix A in determining its market risk until it obtains the next quarter's back-testing results;

TABLE 1—MULTIPLICATION FACTOR BASED ON THE NUMBER OF BACK-TESTING EXCEPTIONS OF THE VAR MODEL

Number of exceptions	Multiplication factor
4 or fewer	3.00
5	3.40
6	3.50
7	3.65
8	3.75
9	3.85
10 or more	4.00

(iv) For purposes of computing the credit equivalent amount of the swap dealer's exposures to a counterparty, the swap dealer must determine the appropriate multiplication factor as follows:

(A) Beginning three months after it begins using the VaR model to calculate maximum potential exposure, the swap dealer must conduct back-testing of the model by comparing, for at least 80 counterparties (or the actual number of counterparties if the swap dealer does not have 80 counterparties) with widely varying types and sizes of positions with the firm, the ten business day change in its current exposure to the counterparty based on its positions held at the beginning of the ten-business day period with the corresponding ten-business day maximum potential exposure for the counterparty generated by the VaR model;

(B) As of the last business day of each quarter, the swap dealer must identify the number of back-testing exceptions of the VaR model, that is, the number of ten-business day periods in the past 250 business days, or other period as may be appropriate for the first year of its use, for which the change in current exposure to a

counterparty, assuming the portfolio remains static for the ten-business day period, exceeds the corresponding maximum potential exposure; and

(C) The swap dealer will propose, as part of its application, a schedule of multiplication factors, which must be approved by the Commission, or a registered futures association of which the swap dealer is a member, based on the number of back-testing exceptions of the VaR model. The swap dealer must use the multiplication factor indicated in the approved schedule in determining the credit equivalent amount of its exposures to a counterparty until it obtains the next quarter's back-testing results, unless the Commission or the registered futures association determines, based on, among other relevant factors, a review of the swap dealer's internal risk management control system, including a review of the VaR model, that a different adjustment or other action is appropriate.

(2) *Quantitative requirements.* (i) For purposes of determining market risk exposure, the VaR model must use a 99 percent, one-tailed confidence level with price changes equivalent to a ten business-day movement in rates and prices;

(ii) For purposes of determining maximum potential exposure, the VaR model must use a 99 percent, one-tailed confidence level with price changes equivalent to a one-year movement in rates and prices; or based on a review of the swap dealer's procedures for managing collateral and if the collateral is marked to market daily and the swap dealer has the ability to call for additional collateral daily, the Commission, or the registered futures association of which the swap dealer is a member, may approve a time horizon of not less than ten business days;

(iii) The VaR model must use an effective historical observation period of at least one year. The swap dealer must consider the effects of market stress in its construction of the model. Historical data sets must be updated at least monthly and reassessed whenever market prices or volatilities change significantly or portfolio composition warrant; and

(iv) The VaR model must take into account and incorporate all significant, identifiable market risk factors applicable to positions in the accounts of the swap dealer, including:

(A) Risks arising from the non-linear price characteristics of derivatives and the sensitivity of the fair value of those positions to changes in the volatility of the derivatives' underlying rates, prices, or other material risk factors. A swap dealer with a large or complex portfolio with non-linear derivatives (such as options or positions with embedded optionality) must measure the volatility of these positions at different maturities and/or strike prices, where material;

(B) Empirical correlations within and across risk factors provided that the swap dealer validates and demonstrates the reasonableness of its process for measuring correlations, if the VaR-based measure does not incorporate empirical correlations across risk categories, the swap dealer must add the separate measures from its internal models used to calculate the VaR-based measure for the appropriate risk categories (interest rate risk, credit spread risk, equity price risk, foreign exchange rate risk, and/or commodity price risk) to determine its aggregate VaR-based measure, or, alternatively, risk factors sufficient to cover all the market risk inherent in the positions in the proprietary or other trading accounts of the swap dealer, including interest rate risk, equity price risk, foreign exchange risk, and commodity price risk; and

(C) Spread risk, where applicable, and segments of the yield curve sufficient to capture differences in volatility and imperfect correlation of rates along the yield curve for securities and derivatives that are sensitive to different interest rates. For material positions in major currencies and markets, modeling techniques must incorporate enough segments of the yield curve—in no case less than six—to capture differences in volatility and less than perfect correlation of rates along the yield curve.

(j) *Stressed VaR-based Measure.* A stressed VaR model must meet the following minimum requirements in order to be approved:

(1) *Requirements for stressed VaR-based measure.* (i) A swap dealer must calculate a stressed VaR-based measure for its positions using the same model(s) used to calculate the VaR-based measure under paragraph (i) of this appendix, subject to the same confidence level and holding period applicable to the VaR-based measure, but with model inputs calibrated to historical data from a continuous 12-month period that reflects a period of significant financial stress appropriate to the swap dealer's current portfolio.

(ii) The stressed VaR-based measure must be calculated at least weekly and be no less than the swap dealer's VaR-based measure.

(iii) A swap dealer must have policies and procedures that describe how it determines the period of significant financial stress used to calculate the swap dealer's stressed VaR-based measure under this appendix and must be able to provide empirical support for the period used. The swap dealer must obtain the prior approval of the Commission, or a registered futures association of which the swap dealer is a member, if the swap dealer makes any material changes to these policies and procedures. The policies and procedures must address:

(A) How the swap dealer links the period of significant financial stress used to calculate

the stressed VaR-based measure to the composition and directional bias of its current portfolio; and

(B) The swap dealer's process for selecting, reviewing, and updating the period of significant financial stress used to calculate the stressed VaR-based measure and for monitoring the appropriateness of the period to the swap dealer's current portfolio.

(iv) Nothing in this appendix prevents the Commission or the registered futures association of which the swap dealer is a member from requiring a swap dealer to use a different period of significant financial stress in the calculation of the stressed VaR-based measure.

(k) *Specific Risk.* A specific risk model must meet the following minimum requirements in order to be approved:

(1) *General requirement.* A swap dealer must use one of the methods in this paragraph (k) to measure the specific risk for each of its debt, equity, and securitization positions with specific risk.

(2) *Modeled specific risk.* A swap dealer may use models to measure the specific risk of its proprietary positions. A swap dealer must use models to measure the specific risk of correlation trading positions that are modeled under paragraph (m) of this appendix.

(i) *Requirements for specific risk modeling.* (A) If a swap dealer uses internal models to measure the specific risk of a portfolio, the internal models must:

(1) Explain the historical price variation in the portfolio;

(2) Be responsive to changes in market conditions;

(3) Be robust to an adverse environment, including signaling rising risk in an adverse environment; and

(4) Capture all material components of specific risk for the debt and equity positions in the portfolio. Specifically, the internal models must:

(i) Capture name-related basis risk;

(ii) Capture event risk and idiosyncratic risk; and

(iii) Capture and demonstrate sensitivity to material differences between positions that are similar but not identical and to changes in portfolio composition and concentrations.

(B) If a swap dealer calculates an incremental risk measure for a portfolio of debt or equity positions under paragraph (l) of this appendix, the swap dealer is not required to capture default and credit migration risks in its internal models used to measure the specific risk of those portfolios.

(C) A swap dealer shall validate a specific risk model through back-testing.

(ii) *Specific risk fully modeled for one or more portfolios.* If the swap dealer's VaR-based measure captures all material aspects of specific risk for one or more of its portfolios of debt, equity, or correlation trading posi-

tions, the swap dealer has no specific risk add-on for those portfolios.

(3) *Specific risk not modeled.* (i) If the swap dealer's VaR-based measure does not capture all material aspects of specific risk for a portfolio of debt, equity, or correlation trading positions, the swap dealer must calculate a specific-risk add-on for the portfolio under the standardized measurement method as described in 12 CFR 217.210.

(ii) A swap dealer must calculate a specific risk add-on under the standardized measurement method as described in 12 CFR 217.200 for all of its securitization positions that are not modeled under this paragraph (k).

(1) *Incremental Risk.* An incremental risk model must meet the following minimum requirements in order to be approved:

(1) *General requirement.* A swap dealer that measures the specific risk of a portfolio of debt positions under paragraph (k) of this appendix using internal models must calculate at least weekly an incremental risk measure for that portfolio according to the requirements in this appendix. The incremental risk measure is the swap dealer's measure of potential losses due to incremental risk over a one-year time horizon at a one-tail, 99.9 percent confidence level, either under the assumption of a constant level of risk, or under the assumption of constant positions. With the prior approval of the Commission or a registered futures association of which the swap dealer is a member, a swap dealer may choose to include portfolios of equity positions in its incremental risk model, provided that it consistently includes such equity positions in a manner that is consistent with how the swap dealer internally measures and manages the incremental risk of such positions at the portfolio level. If equity positions are included in the model, for modeling purposes default is considered to have occurred upon the default of any debt of the issuer of the equity position. A swap dealer may not include correlation trading positions or securitization positions in its incremental risk measure.

(2) *Requirements for incremental risk modeling.* For purposes of calculating the incremental risk measure, the incremental risk model must:

(i) Measure incremental risk over a one-year time horizon and at a one-tail, 99.9 percent confidence level, either under the assumption of a constant level of risk, or under the assumption of constant positions.

(A) A constant level of risk assumption means that the swap dealer rebalances, or rolls over, the swap dealer's trading positions at the beginning of each liquidity horizon over the one-year horizon in a manner that maintains the swap dealer's initial risk level. The swap dealer must determine the frequency of rebalancing in a manner consistent with the liquidity horizons of the positions in the portfolio. The liquidity horizon

of a position or set of positions is the time required for a swap dealer to reduce its exposure to, or hedge all of its material risks of, the position(s) in a stressed market. The liquidity horizon for a position or set of positions may not be less than the shorter of three months or the contractual maturity of the position.

(B) A constant position assumption means that the swap dealer maintains the same set of positions throughout the one-year horizon. If a swap dealer uses this assumption, it must do so consistently across all portfolios.

(C) A swap dealer's selection of a constant position or a constant risk assumption must be consistent between the swap dealer's incremental risk model and its comprehensive risk model described in paragraph (m) of this appendix, if applicable.

(D) A swap dealer's treatment of liquidity horizons must be consistent between the swap dealer's incremental risk model and its comprehensive risk model described in paragraph (m) of this appendix, if applicable.

(i) Recognize the impact of correlations between default and migration events among obligors.

(iii) Reflect the effect of issuer and market concentrations, as well as concentrations that can arise within and across product classes during stressed conditions.

(iv) Reflect netting only of long and short positions that reference the same financial instrument.

(v) Reflect any material mismatch between a position and its hedge.

(vi) Recognize the effect that liquidity horizons have on dynamic hedging strategies. In such cases, a swap dealer must:

(A) Choose to model the rebalancing of the hedge consistently over the relevant set of trading positions;

(B) Demonstrate that including rebalancing results in a more appropriate risk measurement;

(C) Demonstrate that the market for the hedge is sufficiently liquid to permit rebalancing during periods of stress; and

(D) Capture in the incremental risk model any residual risks arising from such hedging strategies.

(vii) Reflect the nonlinear impact of options and other positions with material nonlinear behavior with respect to default and migration changes.

(viii) Maintain consistency with the swap dealer's internal risk management methodologies for identifying, measuring, and managing risk.

(m) *Comprehensive Risk.* A comprehensive risk model must meet the following minimum requirements in order to be approved:

(1) *General requirement.* (i) Subject to the prior approval of the Commission or a registered futures association of which the swap dealer is a member, a swap dealer may use the method in this paragraph to measure

comprehensive risk, that is, all price risk, for one or more portfolios of correlation trading positions.

(ii) A swap dealer that measures the price risk of a portfolio of correlation trading positions using internal models must calculate at least weekly a comprehensive risk measure that captures all price risk according to the requirements of this paragraph (m). The comprehensive risk measure is either:

(A) The sum of:

(1) The swap dealer's modeled measure of all price risk determined according to the requirements in paragraph (m)(2) of this appendix; and

(2) A surcharge for the swap dealer's modeled correlation trading positions equal to the total specific risk add-on for such positions as calculated under paragraph (k) of this appendix multiplied by 8.0 percent; or

(B) With approval of the Commission, or the registered futures association of which the swap dealer is a member, and provided the swap dealer has met the requirements of this paragraph (m) for a period of at least one year and can demonstrate the effectiveness of the model through the results of ongoing model validation efforts including robust benchmarking, the greater of:

(1) The swap dealer's modeled measure of all price risk determined according to the requirements in paragraph (b) of this appendix; or

(2) The total specific risk add-on that would apply to the swap dealer's modeled correlation trading positions as calculated under paragraph (k) of this appendix multiplied by 8.0 percent.

(2) *Requirements for modeling all price risk.* If a swap dealer uses an internal model to measure the price risk of a portfolio of correlation trading positions:

(i) The internal model must measure comprehensive risk over a one-year time horizon at a one-tail, 99.9 percent confidence level, either under the assumption of a constant level of risk, or under the assumption of constant positions.

(ii) The model must capture all material price risk, including but not limited to the following:

(A) The risks associated with the contractual structure of cash flows of the position, its issuer, and its underlying exposures;

(B) Credit spread risk, including nonlinear price risks;

(C) The volatility of implied correlations, including nonlinear price risks such as the cross-effect between spreads and correlations;

(D) Basis risk;

(E) Recovery rate volatility as it relates to the propensity for recovery rates to affect tranche prices; and

(F) To the extent the comprehensive risk measure incorporates the benefits of dynamic hedging, the static nature of the

hedge over the liquidity horizon must be recognized. In such cases, a swap dealer must:

(1) Choose to model the rebalancing of the hedge consistently over the relevant set of trading positions;

(2) Demonstrate that including rebalancing results in a more appropriate risk measurement;

(3) Demonstrate that the market for the hedge is sufficiently liquid to permit rebalancing during periods of stress; and

(4) Capture in the comprehensive risk model any residual risks arising from such hedging strategies;

(iii) The swap dealer must use market data that are relevant in representing the risk profile of the swap dealer's correlation trading positions in order to ensure that the swap dealer fully captures the material risks of the correlation trading positions in its comprehensive risk measure in accordance with this appendix; and

(iv) The swap dealer must be able to demonstrate that its model is an appropriate representation of comprehensive risk in light of the historical price variation of its correlation trading positions.

(3) *Requirements for stress testing.* (i) A swap dealer must at least weekly apply specific, supervisory stress scenarios to its portfolio of correlation trading positions that capture changes in:

- (A) Default rates;
- (B) Recovery rates;
- (C) Credit spreads;
- (D) Correlations of underlying exposures;

and

(E) Correlations of a correlation trading position and its hedge.

(ii) *Other requirements.* (A) A swap dealer must retain and make available to the Commission and to the registered futures association of which the swap dealer is a member the results and all assumptions and parameters of the supervisory stress testing, including comparisons with the capital requirements generated by the swap dealer's comprehensive risk model.

(B) A swap dealer must report promptly to the Commission and to the registered futures association of which it is a member any instances where the stress tests indicate any material deficiencies in the comprehensive risk model.

(n) *Securitization Exposures.* (1) To use the simplified supervisory formula approach (SSFA) to determine the specific risk-weighting factor for a securitization position, a swap dealer must have data that enables it to assign accurately the parameters described in paragraph (n)(2) of this appendix. Data used to assign the parameters described in paragraph (n)(2) of this appendix must be the most currently available data; if the contracts governing the underlying exposures of the securitization require payments on a monthly or quarterly basis, the data

used to assign the parameters described in paragraph (n)(2) of this appendix must be no more than 91 calendar days old. A swap dealer that does not have the appropriate data to assign the parameters described in paragraph (n)(2) of this appendix must assign a specific risk-weighting of 100 percent to the position.

(2) *SSFA parameters.* To calculate the specific risk-weighting factor for a securitization position using the SSFA, a swap dealer must have accurate information on the five inputs to the SSFA calculation described in paragraphs (n)(2)(i) through (n)(2)(v) of this appendix.

(i) K_G is the weighted-average (with unpaid principal used as the weight for each exposure) total capital requirement of the underlying exposures calculated for a swap dealer's credit risk. K_G is expressed as a decimal value between zero and one (that is, an average risk weight of 100 percent presents a value of K_G equal to 0.08).

(ii) Parameter W is expressed as a decimal value between zero and one. Parameter W is the ratio of the sum of the dollar amounts of any underlying exposures of the securitization that meet any of the criteria as set forth in paragraphs (n)(2)(i)(A) through (F) of this appendix to the balance, measured in dollars, of underlying exposures:

- (A) Ninety days or more past due;
- (B) Subject to a bankruptcy or insolvency proceeding;
- (C) In the process of foreclosure;
- (D) Held as real estate owned;
- (E) Has contractually deferred payments for 90 days or more, other than principal or interest payments deferred on;

(1) Federally-guaranteed student loans, in accordance with the terms of those guarantee programs; or

(2) Consumer loans, including non-federally guaranteed student loans, provided that such payments are deferred pursuant to provisions included in the contract at the time funds are disbursed that provide for period(s) of deferral that are not initiated based on changes in the creditworthiness of the borrower; or

(F) Is in default.

(iii) Parameter A is the attachment point for the position, which represents the threshold at which credit losses will first be allocated to the position. Except as provided in 12 CFR 217.210(b)(2)(vii)(D) for nth to default derivatives, parameter A equals the ratio of the current dollar amount of underlying exposures that are subordinated to the position of the swap dealer to the current dollar amount of underlying exposures. Any reserve account funded by the accumulated cash flows from the underlying exposures that is subordinated to the position that contains the swap dealer's securitization exposure may be included in the calculation of parameter A to the extent that cash is present in

the account. Parameter A is expressed as a decimal value between zero and one.

(iv) Parameter D is the detachment point for the position, which represents the threshold at which credit losses of principal allocated to the position would result in a total loss of principal. Except as provided in 12 CFR 210(b)(2)(vii)(D) for nth-to-default credit derivatives, parameter D equals parameter A plus the ratio of the current dollar amount of the securitization positions that are pari passu with the position (that is, have equal seniority with respect to credit risk) to the current dollar amount of the underlying exposures. Parameter D is expressed as a decimal value between zero and one.

(v) A supervisory calibration parameter, p, is equal to 0.5 for securitization positions that are not resecuritization positions and equal to 1.5 for resecuritization positions.

(3) *Mechanics of the SSFA.* K_G and W are used to calculate K_A , the augmented value of K_G , which reflects the observed credit quality of the underlying exposures. K_A is defined in paragraph (n)(4) of this appendix. The values of parameters A and D, relative to K_A de-

termine the specific risk-weighting factor assigned to a securitization position, or portion of a position, as appropriate, is the larger of the specific risk-weighting factor determined in accordance with this paragraph (n)(3), paragraph (n)(4) of this appendix, and a specific risk-weighting factor of 1.6 percent.

(i) When the detachment point, parameter D, for a securitization position is less than or equal to K_A , the position must be assigned a specific risk-weighting factor of 100 percent.

(ii) When the attachment point, parameter A, for a securitization position is greater than or equal to K_A , the swap dealer must calculate the specific risk-weighting factor in accordance with paragraph (n)(4) of this appendix.

(iii) When A is less than K_A and D is greater than K_A , the specific risk-weighting factor is a weighted-average of 1.00 and K_{SSFA} calculated under paragraphs (n)(3)(iii)(A) and (3)(iii)(B) of this appendix. For the purpose of this calculation:

(A) The weight assigned to 1.00 equals

(B) The weight assigned to K_{SSFA} equals $\frac{D-K_A}{D-A}$. The specific risk-weighting factor is

equal to: $SRWF = 100 \cdot \left[\left(\frac{K_A-A}{D-A} \right) \cdot 1.00 \right] + \left[\left(\frac{D-K_A}{D-A} \right) \cdot K_{SSFA} \right]$

(4) *SSFA equation.* (i) The swap dealer must define the following parameters:

$$K_A = (1 - W) \cdot K_G + (0.5 \cdot W)$$

$$a = -\frac{1}{p \cdot K_A}$$

$$u = D - K_A$$

$$l = \max(A - K_A, 0)$$

$$e = 2.71828, \text{ the base of the natural logarithms}$$

(ii) Then the swap dealer must calculate K_{SSFA} according to the following formula:

$$K_{SSFA} = \frac{e^{a \cdot u} - e^{a \cdot l}}{a \cdot (u - l)}$$

(iii) The specific risk-weighting factor for the position (expressed as a percent) is equal to $K_{SSFA} \times 100$.

(o) *Additional conditions.* As a condition for the swap dealer to use this Appendix A to calculate certain of its capital charges, the

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Commission, or registered futures association of which the swap dealer is a member, may impose additional conditions on the swap dealer, which may include, but are not limited to restricting the swap dealer's business on a product-specific, category-specific, or general basis; submitting to the Commission or the registered futures association a plan to increase the swap dealer's regulatory capital; filing more frequent reports with the Commission or the registered futures association; modifying the swap dealer's internal risk management control procedures; or computing the swap dealer's deductions for market and credit risk in accordance with §§23.102 as appropriate. If the Commission or registered futures association finds it is necessary or appropriate in the public interest, the Commission or registered futures association may impose additional conditions on the swap dealer, if:

(1) The swap dealer is required to provide notice to the Commission or the registered

futures association that the swap dealer's regulatory capital is less than \$100 million;

(2) The swap dealer fails to meet the reporting requirements set forth in §23.105;

(3) Any event specified in §23.105 occurs;

(4) There is a material deficiency in the internal risk management control system or in the mathematical models used to price securities or to calculate deductions for market and credit risk or allowances for market and credit risk, as applicable, of the swap dealer;

(5) The swap dealer fails to comply with this Appendix A; or

(6) The Commission finds that imposition of other conditions is necessary or appropriate in the public interest.

[85 FR 57556, Sept. 15, 2020]

**APPENDIX B TO SUBPART E OF PART 23—
SWAP DEALER AND MAJOR SWAP
PARTICIPANT POSITION INFORMATION**

Reg. 23.105 (l) Appendix B	SCHEDULE 1 – AGGREGATE SECURITIES, COMMODITIES, AND SWAPS POSITIONS	
	Items on this page to be reported by:	Swap Dealers Major Swap Participants
Aggregate Securities, Commodities, and Swaps Positions	LONG/BOUGHT	SHORT/SOLD
1. U.S. treasury securities.....	\$ 8200	\$ 8201
2. U.S. government agency and U.S. government-sponsored enterprises.....	\$ 8210	\$ 8211
A. Mortgage-backed securities issued by U.S. government agency and U.S. government-sponsored enterprises.....	\$ 18001	\$ 18002
B. Debt securities issued by U.S. government agency and U.S. government-sponsored enterprises.....	\$ 18003	\$ 18004
3. Securities issued by states and political subdivisions in the U.S.....	\$ 8220	\$ 8221
4. Foreign securities		
A. Debt securities.....	\$ 8230	\$ 8231
B. Equity securities.....	\$ 8235	\$ 8236
5. Money market instruments.....	\$ 8240	\$ 8241
6. Private label mortgage backed securities.....	\$ 8250	\$ 8251
7. Other asset-backed securities.....	\$ 8260	\$ 8261
8. Corporate obligations.....	\$ 8270	\$ 8271
9. Stocks and warrants (other than arbitrage positions).....	\$ 8280	\$ 8281
10. Arbitrage.....	\$ 8290	\$ 8291
11. Spot commodities.....	\$ 8330	\$ 8331
12. Other securities and commodities.....	\$ 8360	\$ 8361
13. Securities with no ready market		
A. Equity.....	\$ 8340	\$ 8341
B. Debt.....	\$ 8345	\$ 8346
C. Other.....	\$ 8350	\$ 8351
D. Total securities with no ready market.....	\$ 12777	\$ 12782
14. Total net securities and spot commodities (sum of Lines 1-12 and 13D).....	\$ 12778	\$ 12783
15. Security-based swaps		
A. Cleared.....	\$ 12106	\$ 12114
B. Non-cleared.....	\$ 12107	\$ 12115
16. Mixed swaps		
A. Cleared.....	\$ 12108	\$ 12116
B. Non-cleared.....	\$ 12109	\$ 12117
17. Swaps		
A. Cleared.....	\$ 12110	\$ 12118
B. Non-cleared.....	\$ 12111	\$ 12119
18. Other derivatives and options.....	\$ 8295	\$ 8296
19. Counterparty netting.....	\$ 12779	\$ 12784
20. Cash collateral netting.....	\$ 12780	\$ 12785
21. Total derivative receivables and payables (sum of Lines 15-20).....	\$ 12781	\$ 12786
22. Total net securities, commodities, and swaps positions (sum of Lines 14 and 21).....	\$ 8370	\$ 8371

Name of firm: _____
As of: _____

NOTE: The information required to be reported within this form is intended to be identical to that required to be reported by Security Based Swap Dealers and Major Security Based Swap Participants under SEC FORM X-17a-5 FOCUS Report Part II. Please refer to FOCUS REPORT II INSTRUCTIONS and related interpretations published by the SEC in the preparation of this form.

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SCHEDULE 2 - CREDIT CONCENTRATION REPORT FOR FIFTEEN LARGEST EXPOSURES IN DERIVATIVES

Items on this page to be reported by: Swap Dealers (Authorized to use models)
Major Swap Participants

I. By Current Net Exposure

Counterparty Identifier	Gross Replacement Value		Net Replacement Value	Current Net Exposure	Current Net and Potential Exposure	Margin Collected
	Receivable (Gross Gain)	Payable (Gross Loss)				
1. [12120]	\$ [12138]	\$ [12151]	\$ [12167]	\$ [12183]	\$ [12199]	\$ [12215]
2. [12121]	\$ [12136]	\$ [12152]	\$ [12168]	\$ [12184]	\$ [12200]	\$ [12216]
3. [12122]	\$ [12137]	\$ [12153]	\$ [12169]	\$ [12185]	\$ [12201]	\$ [12217]
4. [12123]	\$ [12138]	\$ [12154]	\$ [12170]	\$ [12186]	\$ [12202]	\$ [12218]
5. [12124]	\$ [12139]	\$ [12155]	\$ [12171]	\$ [12187]	\$ [12203]	\$ [12219]
6. [12125]	\$ [12140]	\$ [12156]	\$ [12172]	\$ [12188]	\$ [12204]	\$ [12220]
7. [12126]	\$ [12141]	\$ [12157]	\$ [12173]	\$ [12189]	\$ [12205]	\$ [12221]
8. [12127]	\$ [12142]	\$ [12158]	\$ [12174]	\$ [12190]	\$ [12206]	\$ [12222]
9. [12128]	\$ [12143]	\$ [12159]	\$ [12175]	\$ [12191]	\$ [12207]	\$ [12223]
10. [12129]	\$ [12144]	\$ [12160]	\$ [12176]	\$ [12192]	\$ [12208]	\$ [12224]
11. [12130]	\$ [12145]	\$ [12161]	\$ [12177]	\$ [12193]	\$ [12209]	\$ [12225]
12. [12131]	\$ [12146]	\$ [12162]	\$ [12178]	\$ [12194]	\$ [12210]	\$ [12226]
13. [12132]	\$ [12147]	\$ [12163]	\$ [12179]	\$ [12195]	\$ [12211]	\$ [12227]
14. [12133]	\$ [12148]	\$ [12164]	\$ [12180]	\$ [12196]	\$ [12212]	\$ [12228]
15. [12134]	\$ [12149]	\$ [12165]	\$ [12181]	\$ [12197]	\$ [12213]	\$ [12229]
All other counterparties	\$ [12150]	\$ [12166]	\$ [12182]	\$ [12198]	\$ [12214]	\$ [12230]
Totals:	\$ [7810]	\$ [7811]	\$ [7812]	\$ [7813]	\$ [7814]	\$ [12231]

II. By Current Net and Potential Exposure

Counterparty Identifier	Gross Replacement Value		Net Replacement Value	Current Net Exposure	Current Net and Potential Exposure	Margin Collected
	Receivable (Gross Gain)	Payable (Gross Loss)				
1. [12232]	\$ [12247]	\$ [12264]	\$ [12281]	\$ [12298]	\$ [12315]	\$ [12332]
2. [12233]	\$ [12248]	\$ [12265]	\$ [12282]	\$ [12299]	\$ [12316]	\$ [12333]
3. [12234]	\$ [12249]	\$ [12266]	\$ [12283]	\$ [12300]	\$ [12317]	\$ [12334]
4. [12235]	\$ [12250]	\$ [12267]	\$ [12284]	\$ [12301]	\$ [12318]	\$ [12335]
5. [12236]	\$ [12251]	\$ [12268]	\$ [12285]	\$ [12302]	\$ [12319]	\$ [12336]
6. [12237]	\$ [12252]	\$ [12269]	\$ [12286]	\$ [12303]	\$ [12320]	\$ [12337]
7. [12238]	\$ [12253]	\$ [12270]	\$ [12287]	\$ [12304]	\$ [12321]	\$ [12338]
8. [12239]	\$ [12254]	\$ [12271]	\$ [12288]	\$ [12305]	\$ [12322]	\$ [12339]
9. [12240]	\$ [12255]	\$ [12272]	\$ [12289]	\$ [12306]	\$ [12323]	\$ [12340]
10. [12241]	\$ [12256]	\$ [12273]	\$ [12290]	\$ [12307]	\$ [12324]	\$ [12341]
11. [12242]	\$ [12257]	\$ [12274]	\$ [12291]	\$ [12308]	\$ [12325]	\$ [12342]
12. [12243]	\$ [12258]	\$ [12275]	\$ [12292]	\$ [12309]	\$ [12326]	\$ [12343]
13. [12244]	\$ [12259]	\$ [12276]	\$ [12293]	\$ [12310]	\$ [12327]	\$ [12344]
14. [12245]	\$ [12260]	\$ [12277]	\$ [12294]	\$ [12311]	\$ [12328]	\$ [12345]
15. [12246]	\$ [12261]	\$ [12278]	\$ [12295]	\$ [12312]	\$ [12329]	\$ [12346]
All other counterparties	\$ [12262]	\$ [12279]	\$ [12296]	\$ [12313]	\$ [12330]	\$ [12347]
Totals:	\$ [12263]	\$ [12280]	\$ [12297]	\$ [12314]	\$ [12331]	\$ [12348]

Name of firm: _____
As of: _____

NOTE: The information required to be reported within this form is intended to be identical to that required to be reported by Security Based Swap Dealers and Major Security Based Swap Participants under SEC FORM X-17a-5 FOCUS Report Part II. Please refer to FOCUS REPORT II INSTRUCTIONS and related interpretations published by the SEC in the preparation of this form.

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SCHEDULE 3 – PORTFOLIO SUMMARY OF DERIVATIVES EXPOSURES BY INTERNAL CREDIT RATING

Items on this page to be reported by: Swap Dealers (Authorized to use models)
Major Swap Participants

Internal Credit Rating	Gross Replacement Value		Net Replacement Value	Current Net Exposure	Current Net and Potential Exposure	Margin Collected
	Receivable	Payable				
1.	12349	12386	12423	12480	12497	12534
2.	12350	12387	12424	12481	12498	12535
3.	12351	12388	12425	12482	12499	12536
4.	12352	12389	12426	12483	12500	12537
5.	12353	12390	12427	12484	12501	12538
6.	12354	12391	12428	12485	12502	12539
7.	12355	12392	12429	12486	12503	12540
8.	12356	12393	12430	12487	12504	12541
9.	12357	12394	12431	12488	12505	12542
10.	12358	12395	12432	12489	12506	12543
11.	12359	12396	12433	12490	12507	12544
12.	12360	12397	12434	12491	12508	12545
13.	12361	12398	12435	12492	12509	12546
14.	12362	12399	12436	12493	12510	12547
15.	12363	12400	12437	12494	12511	12548
16.	12364	12401	12438	12495	12512	12549
17.	12365	12402	12439	12496	12513	12550
18.	12366	12403	12440	12497	12514	12551
19.	12367	12404	12441	12498	12515	12552
20.	12368	12405	12442	12499	12516	12553
21.	12369	12406	12443	12500	12517	12554
22.	12370	12407	12444	12501	12518	12555
23.	12371	12408	12445	12502	12519	12556
24.	12372	12409	12446	12503	12520	12557
25.	12373	12410	12447	12504	12521	12558
26.	12374	12411	12448	12505	12522	12559
27.	12375	12412	12449	12506	12523	12560
28.	12376	12413	12450	12507	12524	12561
29.	12377	12414	12451	12508	12525	12562
30.	12378	12415	12452	12509	12526	12563
31.	12379	12416	12453	12510	12527	12564
32.	12380	12417	12454	12511	12528	12565
33.	12381	12418	12455	12512	12529	12566
34.	12382	12419	12456	12513	12530	12567
35.	12383	12420	12457	12514	12531	12568
36.	12384	12421	12458	12515	12532	12569
Unrated	12385	12422	12459	12496	12533	12570
Totals:		7822	7823	7821	7820	12571

Name of firm: _____
As of: _____

NOTE: The information required to be reported within this form is intended to be identical to that required to be reported by Security Based Swap Dealers and Major Security Based Swap Participants under SEC FORM X-17a-5 FOCUS Report Part II. Please refer to FOCUS REPORT II INSTRUCTIONS and related interpretations published by the SEC in the preparation of this form.

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SCHEDULE 4 – GEOGRAPHIC DISTRIBUTION OF DERIVATIVES EXPOSURES FOR TEN LARGEST COUNTRIES

Items on this page to be reported by: Swap Dealers (Authorized to use models)
Major Swap Participants

I. By Current Net Exposure

Country	Gross Replacement Value		Net Replacement Value	Current Net Exposure	Current Net and Potential Exposure	Margin Collected
	Receivable	Payable				
1.	12610	12620	12630	12640	12650	12661
2.	12611	12621	12631	12641	12651	12662
3.	12612	12622	12632	12642	12652	12663
4.	12613	12623	12633	12643	12653	12664
5.	12614	12624	12634	12644	12654	12665
6.	12615	12625	12635	12645	12655	12666
7.	12616	12626	12636	12646	12656	12667
8.	12617	12627	12637	12647	12657	12668
9.	12618	12628	12638	12648	12658	12669
10.	12619	12629	12639	12649	12659	12670
Totals:		7803	7804	7802	12660	7801

II. By Current Net and Potential Exposure

Country	Gross Replacement Value		Net Replacement Value	Current Net Exposure	Current Net and Potential Exposure	Margin Collected
	Receivable	Payable				
1.	12682	12692	12703	12714	12725	12736
2.	12683	12693	12704	12715	12726	12737
3.	12684	12694	12705	12716	12727	12738
4.	12685	12695	12706	12717	12728	12739
5.	12686	12696	12707	12718	12729	12740
6.	12687	12697	12708	12719	12730	12741
7.	12688	12698	12709	12720	12731	12742
8.	12689	12699	12710	12721	12732	12743
9.	12690	12700	12711	12722	12733	12744
10.	12691	12701	12712	12723	12734	12745
Totals:		12702	12713	12724	12735	12746

Name of firm: _____
As of: _____

NOTE: The information required to be reported within this form is intended to be identical to that required to be reported by Security Based Swap Dealers and Major Security Based Swap Participants under SEC FORM X-17a-5 FOCUS Report Part II. Please refer to FOCUS REPORT II INSTRUCTIONS and related interpretations published by the SEC in the preparation of this form.

[85 FR 57561, Sept. 15, 2020]

APPENDIX C TO SUBPART E OF PART 23—
FINANCIAL REPORTS AND SPECIFIC
POSITION INFORMATION FOR SWAP
DEALERS AND MAJOR SWAP PARTICI-
PANTS SUBJECT TO THE CAPITAL RE-
QUIREMENTS OF A PRUDENTIAL REG-
ULATOR

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Reg. 23.105 (g) Appendix C	BALANCE SHEET (INFORMATION AS REPORTED ON FFIEC FORM 031 – SCHEDULE RC)	
	Items on this page to be reported by a: Bank SD Bank MSP	

<u>Assets</u>	<u>Totals</u>
1. Cash and balances due from depository institutions (from FFIEC Form 031's Schedule RC-A)	
A. Noninterest-bearing balances and currency and coin.....	\$ 00814
B. Interest-bearing balances.....	\$ 00714
2. Securities	
A. Held-to-maturity securities.....	\$ 17544
B. Available-for-sale securities.....	\$ 17734
3. Federal funds sold and securities purchased under agreements to resell	
A. Federal funds sold in domestic offices.....	\$ 39874
B. Securities purchased under agreements to resell.....	\$ 39894
4. Loans and lease financing receivables (from FFIEC Form 031's Schedule RC-C)	
A. Loans and leases held for sale.....	\$ 53694
B. Loans and leases, net of unearned income.....	\$ 35284
C. LESS: Allowance for loan and lease losses.....	\$ 31234
D. Loans and leases, net of unearned income and allowance (Line 4B minus Line 4C).....	\$ 35294
5. Trading assets (from FFIEC Form 031's Schedule RC-D).....	\$ 35454
6. Premises and fixed assets (including capitalized leases).....	\$ 21454
7. Other real estate owned (from FFIEC Form 031's Schedule RC-M).....	\$ 21504
8. Investments in unconsolidated subsidiaries and associated companies.....	\$ 21304
9. Direct and indirect investments in real estate ventures.....	\$ 36564
10. Intangible assets	
A. Goodwill.....	\$ 31634
B. Other intangible assets (from FFIEC Form 031's Schedule RC-M).....	\$ 04264
11. Other assets (from FFIEC Form 031's Schedule RC-F).....	\$ 21604
12. Total assets (sum of Lines 1 through 11).....	\$ 21704

Name of firm: _____
As of: _____

NOTE: The information required to be reported within this form is intended to be identical to that required to be reported by Security Based Swap Dealers and Major Security Based Swap Participants under SEC FORM X-17a-5 FOCUS Report Part II. Please refer to FOCUS REPORT II INSTRUCTIONS and related interpretations published by the SEC in the preparation of this form.

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Reg. 23.105 (p) Appendix C	BALANCE SHEET (INFORMATION AS REPORTED ON FFIEC FORM 031 – SCHEDULE RC)	
	Items on this page to be reported by a: Bank SD Bank MSP	

<u>Liabilities</u>	<u>Totals</u>
13. Deposits	
A. In domestic offices (sum of totals of Columns A and C from FFIEC Form 031's Schedule RC-E, part I)	\$ 2200b
1. Noninterest-bearing	\$ 6631b
2. Interest-bearing	\$ 6636b
B. In foreign offices, Edge and Agreement subsidiaries, and IBFs (from FFIEC Form 031's Schedule RC-E, part II)	\$ 2200b
1. Noninterest-bearing	\$ 6631b
2. Interest-bearing	\$ 6636b
14. Federal funds purchased and securities sold under agreements to repurchase	
A. Federal funds purchased in domestic offices	\$ 9993b
B. Securities sold under agreements to repurchase	\$ 9995b
15. Trading liabilities	\$ 3548b
16. Other borrowed money (includes mortgage indebtedness and obligations under capitalized leases) (from FFIEC Form 031's Schedule RC-M)	\$ 3190b
17. Not applicable.	
18. Not applicable.	
19. Subordinated notes and debentures	\$ 3200b
20. Other liabilities (from FFIEC Form 031's Schedule RC-G)	\$ 2930b
21. Total liabilities (sum of Lines 13 through 20)	\$ 2948b
22. Not applicable.	
<u>Equity Capital</u>	
23. Perpetual preferred stock and related surplus	\$ 3838b
24. Common stock	\$ 3230b
25. Surplus (exclude all surplus related to preferred stock)	\$ 3839b
26 A. Retained earnings	\$ 3632b
B. Accumulated other comprehensive income	\$ 5530b
C. Other equity capital components	\$ 1130b
27A. Total bank equity capital (sum of Lines 23 through 26.C)	\$ 3210b
B. Non-controlling (minority) interests in consolidated subsidiaries	\$ 3000b
28. Total equity capital (sum of Lines 27A and 27B)	\$ 3105b
29. Total liabilities and equity capital (sum of Lines 21 and 28)	\$ 3300b

Name of firm: _____
As of: _____

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REGULATORY CAPITAL (INFORMATION AS REPORTED ON FFIEC FORM 031 – SCHEDULE RC-R)

Items on this page to be reported by a: Bank SD

<u>Capital</u>	<u>Totals</u>
1. Total bank equity capital (from FFIEC Form 031's Schedule RC, Line 27A)	\$ _____ 3210b
2. Tier 1 capital	\$ _____ 8274b
3. Tier 2 capital	\$ _____ 5311b
4. Tier 3 capital allocated for market risk	\$ _____ 1395b
5. Total risk-based capital	\$ _____ 3792b
6. Total risk-weighted assets	\$ _____ A223b
7. Total assets for the leverage ratio	\$ _____ A224b

Capital Ratios (Column B is to be completed by all banks. Column A is to be completed by banks with financial subsidiaries.)

Column A

Column B

8. Tier 1 leverage ratio	\$ _____ 7204b	
9. Tier 1 risk-based capital ratio	_____ 7206b	\$ _____ 7208b
10. Total risk-based capital ratio	_____ 7205b	\$ _____ 7205b

Name of firm: _____
As of: _____

NOTE: The information required to be reported within this form is intended to be identical to that required to be reported by Security Based Swap Dealers and Major Security Based Swap Participants under SEC FORM X-17a-5 FOCUS Report Part II. Please refer to FOCUS REPORT II INSTRUCTIONS and related interpretations published by the SEC in the preparation of this form.

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SCHEDULE 1 - AGGREGATE SECURITY-BASED SWAP AND SWAP POSITIONS

Items on this page to be reported by a: Bank SDs
Bank MSPs

<u>Aggregate Positions</u>	<u>LONG/BOUGHT</u>	<u>SHORT/SOLD</u>
1. Security-based swaps		
A. Cleared	\$ 12801	\$ 12809
B. Non-cleared	\$ 12802	\$ 12810
2. Mixed swaps		
A. Cleared	\$ 12803	\$ 12811
B. Non-cleared	\$ 12804	\$ 12812
3. Swaps		
A. Cleared	\$ 12805	\$ 12813
B. Non-cleared	\$ 12806	\$ 12814
4. Other derivatives	\$ 12807	\$ 12815
5. Total (sum of Lines 1-4)	\$ 12808	\$ 12816

Name of firm: _____
As of: _____

NOTE: The information required to be reported within this form is intended to be identical to that required to be reported by Security Based Swap Dealers and Major Security Based Swap Participants under SEC FORM X-17a-5 FOCUS Report Part II. Please refer to FOCUS REPORT II INSTRUCTIONS and related interpretations published by the SEC in the preparation of this form.

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[85 FR 57565, Sept. 15, 2020]

Subpart F—Reporting, Record-keeping, and Daily Trading Records Requirements for Swap Dealers and Major Swap Participants

SOURCE: 77 FR 20202, Apr. 3, 2012, unless otherwise noted.

§ 23.200 Definitions.

For purposes of subpart F, the following terms shall be defined as provided.

(a) *Business trading unit* means any department, division, group, or personnel of a swap dealer or major swap participant or any of its affiliates, whether or not identified as such, that performs, or exercises supervisory authority over the performance of, any pricing (excluding price verification for risk management purposes), trading, sales, purchasing, marketing, advertising, solicitation, structuring, or brokerage activities on behalf of a registrant.

(b) *Clearing unit* means any department, division, group, or personnel of a registrant or any of its affiliates, whether or not identified as such, that performs any proprietary or customer clearing activities on behalf of a registrant.

(c) *Complaint* means any formal or informal complaint, grievance, criticism, or concern communicated to the swap dealer or major swap participant in any format relating to, arising from, or in connection with, any trading conduct or behavior or with the swap dealer or major swap participant's performance (or failure to perform) any of its regulatory obligations, and includes any and all observations, comments, remarks, interpretations, clarifications, notes, and examinations as to such conduct or behavior communicated or documented by the complainant, swap dealer, or major swap participant.

(d) *Executed* means the completion of the execution process.

(e) *Execution* means, with respect to a swap, an agreement by the parties (whether orally, in writing, electronically, or otherwise) to the terms of a

swap that legally binds the parties to such swap terms under applicable law.

(f) *Governing body*. This term means:

(1) A board of directors;

(2) A body performing a function similar to a board of directors;

(3) Any committee of a board or body; or

(4) The chief executive officer of a registrant, or any such board, body, committee, or officer of a division of a registrant, provided that the registrant's swaps activities for which registration with the Commission is required are wholly contained in a separately identifiable division.

(g) *Prudential regulator* has the meaning given to such term in section 1a(39) of the Commodity Exchange Act and includes the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Farm Credit Association, and the Federal Housing Finance Agency, as applicable to the swap dealer or major swap participant.

(h) *Registered entity* has the meaning given to such term in section 1a(40) of the Commodity Exchange Act, and includes boards of trade designated as contract markets, derivatives clearing organizations, swap execution facilities, and swap data repositories.

(i) *Related cash or forward transaction* means a purchase or sale for immediate or deferred physical shipment or delivery of an asset related to a swap where the swap and the related cash or forward transaction are used to hedge, mitigate the risk of, or offset one another.

(j) *Swaps activities* means, with respect to a registrant, such registrant's activities related to swaps and any product used to hedge such swaps, including, but not limited to, futures, options, other swaps or security-based swaps, debt or equity securities, foreign currency, physical commodities, and other derivatives.

(k) *Swap confirmation* means the consummation (electronically or otherwise) of legally binding documentation (electronic or otherwise) that memorializes the agreement of the parties to all the terms of the swap. A confirmation must be in writing (whether electronic or otherwise) and must legally