

Securities and Exchange Commission  
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United States  
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Chris Barnard

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- **17 CFR Part 240**
- **File No. S7-08-12**
- **Capital, Margin, and Segregation Requirements for Security-Based Swap Dealers and Major Security-Based Swap Participants and Capital Requirements for Broker-Dealers**

Dear Sir.

Thank you for giving us the opportunity to comment on your Proposed rule: Capital, Margin, and Segregation Requirements for Security-Based Swap Dealers and Major Security-Based Swap Participants and Capital Requirements for Broker-Dealers.

In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank), and pursuant to the Securities Exchange Act of 1934 (Exchange Act), you are proposing capital and margin requirements for security-based swap dealers (SBSDs) and major security-based swap participants (MSBSPs), segregation requirements for SBSDs, and notification requirements with respect to segregation for SBSDs and MSBSPs. You are also proposing to increase the minimum net capital requirements for broker-dealers permitted to use the alternative internal model-based method for computing net capital (ANC broker-dealers).

I support all of the proposed capital requirements for SBSDs and MSBSPs (SBS entities). Together, these requirements should ensure the financial solvency of SBS entities, and therefore act to protect market participants by ensuring that SBS entities are sufficiently capitalised at all times. I also agree that nonbank SBSDs should be required to comply with Rule 15c3-4, which requires the establishment of a risk management control system, as this will better enable nonbank SBSDs to identify, mitigate and manage the risks they are facing. This proposal will increase the safety and transparency of nonbank SBSDs and will therefore promote market integrity and reduce general systemic risk.

Margin requirements for non-cleared security-based swaps

I agree that the proposed requirements should not impose margin requirements on non-financial entities entering into non-cleared security-based swaps that are used for hedging or mitigating commercial risk, given that such transactions pose little or no systemic risk.<sup>1</sup> Furthermore, I would strongly support your Alternative B to § 240.18a-3(c)(1)(iii)(B), which would require SBSBs to collect both initial and variation margin in all transactions with other SBSBs, and hold the initial margin with a third party custodian. This is more consistent with the intent of Dodd-Frank, which sets standards for capital and both initial and variation margin that should “be appropriate for the risk associated with the non-cleared security-based swaps held as a security-based swap dealer or major security-based swap participant”.<sup>2</sup>

Yours faithfully

C.R.B.

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<sup>1</sup> For completeness I would add that such derivatives should not be used to hedge or mitigate the risk of other derivative positions, unless those other positions themselves are held for the purpose of hedging or mitigating commercial risk.

<sup>2</sup> Section 764 of Dodd-Frank added Section 15F to the Exchange Act. Section 15F(e)(3)(A)(ii) of the Exchange Act provides that the Commission shall set standards for capital and margin appropriate for the risk associated with non-cleared security-based swaps.