

MEMORANDUM

TO: File Numbers S7-22-20 and S7-04-21

FROM: Valentina Minak Deng
Special Counsel
Office of Financial Responsibility, Division of Trading and Markets
U.S. Securities and Exchange Commission

DATE: April 7, 2021

RE: Meeting with Securities Industry and Financial Markets Association (SIFMA)

On April 7, 2021, Commission staff met via telephone with SIFMA representatives in connection with the proposed order for substituted compliance for security-based swap dealers and major security-based swap participants subject to regulation in the Republic of France. SIFMA representatives included Kyle Brandon, Colin Lloyd, and Samantha Morgan.

Commission staff included Valentina Deng, Carol McGee, and Randall Roy. The SIFMA representatives discussed the manner and format of unaudited financial information with respect to Securities Exchange Act rule 18a-7, the foreign law citations associated with the recordkeeping, reporting, and notification rules, and the proposed conditions for a positive substituted compliance determination with respect to Securities Exchange Act rule 18a-1.

Position Reporting for Security-Based Swap Dealers and Swap Dealers

This summary has been prepared to identify and confirm with the SEC and CFTC certain key concepts and recommendations relating to position reporting on SEC FOCUS Part IIC and Part II Schedule 1 and Appendices B and C to Subpart E of Part 23 of the CFTC's Regulations.

Longs vs Shorts. We request confirmation that:

- "Long/bought" refers to positions with positive NPV (receivables)
- "Short/sold" refers to positions with negative NPV (payables)

Product Breakdowns. We request confirmation that references to "Other derivatives" or "Other derivatives and options" refer to all derivatives reflecting as such in the registrant's local financial reporting requirements and accounting standards but not categorized as "security-based swaps," "mixed swaps" or "swaps" in accordance with applicable SEC and CFTC rules and guidance.

Gross Replacement Value.

The position reporting forms require gross replacement value of positions broken out by product, cleared vs uncleared, long vs short (no netting by counterparty, portfolio or collateral). Many firms, however, make portfolio-level adjustments to arrive at "replacement value" and cannot allocate these adjustments down to the product level.

- Recommendation: Registrants could therefore use mark-to-market values (e.g., mid-market) without these adjustments to report gross replacement value at the individual product level (line items 1-4 in SEC FOCUS Part IIC / CFTC Appendix C and line items 15-18 in SEC FOCUS Part II / CFTC Appendix B).
- Recommendation: For nonbank firms required to use SEC FOCUS Part II / CFTC Appendix B, which includes further line items intended to tie the product level reporting to balance sheet totals (which are calculated at a portfolio, not individual product level), we propose that firms be able to include portfolio-level adjustments within line item 18 ("Other derivatives and options").

Securities with No Ready Market.

For non-US, nonbank firms eligible for substituted compliance, there will be no need to classify securities based on whether they have a ready market.

- Recommendation: For purposes of lines 13A-13D of SEC FOCUS Part II / CFTC Appendix B, we propose that these firms include securities in these lines depending on whether they classify them as "Level 3" assets under local accounting standards.