

United States House of Representatives
Committee on Financial Services
Washington, D.C. 20515

June 12, 2014

The Honorable Timothy G. Massad
Chairman
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, D.C. 20581

Dear Chairman Massad:

As you know, strong derivatives oversight is at the heart of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The goal of the Act and our regulators is to prevent derivatives from presenting a systemic risk to our financial markets and our nation's economy. However, as we live and operate in a global marketplace, our regulators must ensure that U.S. banks responsibly import derivatives risk from trading that happens overseas.

Given this fact, I am writing to express my concern about recent reports that the largest U.S. banks are attempting to avoid U.S. swaps regulations by changing the swaps agreements of their foreign guaranteed affiliates to remove explicit references to any guarantee by the U.S. bank.

As you know, swaps transactions of foreign guaranteed affiliates transfer risk back to the United States to the same degree as if the transaction were entered into directly by the U.S. bank. This is so regardless of the form of the guarantee.

Therefore, I request that the CFTC thoroughly investigate any removal of U.S. guarantees, focusing on the substance, rather than form, of the arrangements between the U.S. banks and their foreign affiliates. In particular, I request that the CFTC consider the presence of other non-traditional guarantees and arrangements that, viewed at the entity-level, support the creditworthiness of foreign affiliates.

Given that large Wall Street banks routinely transact half of their swaps activities through foreign subsidiaries, it is important that U.S. market regulators both work with each other, and with global regulators, towards the goal of international regulatory convergence. As that process continues, we must ensure that U.S. banks are not importing unregulated derivatives risk back to the United States via any changes to the guarantee relationship with their foreign affiliates.

The Honorable Timothy G. Massad

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Thank you for working with me towards this goal, and I look forward to your response to this request.

Sincerely,



MAXINE WATERS

Ranking Member

cc: The Honorable Thomas J. Curry, Comptroller of the Currency, Office of the Comptroller of Currency
The Honorable Martin J. Gruenberg, Chairman, Federal Deposit Insurance Corporation
The Honorable Mary Jo White, Chair, Securities and Exchange Commission
The Honorable Janet L. Yellen, Chair, Board of Governors of the Federal Reserve System