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Federal Reserve's Proposed Rule on QFCs with U.S. G-SIBs and the U.S. Operations of Foreign G-SIBs

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The Federal Reserve recently issued a proposed rule that would prohibit the U.S. G-SIBs and certain foreign G-SIBs from entering into new swaps, repurchase agreements and other qualified financial contracts (QFCs) with other banks, investors or end users, unless certain conditions are satisfied. Among other things, the new QFCs would have to restrict the ability of counterparties to terminate the new QFCs based on the insolvency of the parent or other affiliate of the direct G-SIB party, as long as the direct G-SIB party is still performing on the new QFCs. The effect of this proposed rule is to prevent other banks, investors and end users from entering into any new QFCs with any of the largest U.S. dealers in QFCs, unless they agree to these proposed restrictions. The purpose of the proposed rule is to eliminate what the regulators believe is a material impediment to the orderly resolution of U.S. and foreign G-SIBs.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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