Dear Tom,

**Mark-to-market exposures on freestanding derivatives**

I am writing to you as a provider who reported holding a freestanding derivative position in the December 2014 quarterly survey.

Over the last eight months the swap rates which inform mark-to-market calls have been gradually decreasing and now stand at just over half the level in July 2014. Many providers have had collateral in place from previous falls in the swap rate which has offered some headroom against recent margin calls. However the extent of the recent fall has been such that headroom has been substantially reduced and providers have increasingly been posting cash as security against their positions.

Since it is possible that swap rates will continue to fall, the regulator is seeking assurance that providers have plans in place to cover increasing margin calls over the next three months. You are also reminded that the Regulatory Framework requires providers to communicate in a timely manner with the regulator on material issues relating to non-compliance with the economic standards.

Please therefore confirm **by close of business on Wednesday, 11 February** whether:

1. You **have** material concerns over your ability to collateralise increased margin calls over the next three months

or

1. You **do not have** material concerns over your ability to collateralise increased margin calls over the next three months.

In addition, the regulator may contact providers to discuss their individual exposures and approaches to mitigation.

I look forward to your receiving your response.

Yours sincerely

Paul Burmiston

Financial Analysis Manager