December 27, 2022

SUBMITTED VIA AGENCY WEBSITE

Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: Release No. 34-95763; File No. S7-23-22; Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule with Respect to U.S. Treasury Securities Fund Advisers

Dear Ms. Countryman:

The Independent Dealer and Trader Association ("IDTA")[1] appreciates the opportunity to respond to the U.S. Securities and Exchange Commission ("Commission" or "SEC") proposed rule to increase the number of centrally cleared transactions (the "Proposed Rule").[2] The IDTA was founded on the principals of promoting resilient, liquid, safe and competitive U.S. Treasury and repurchase agreement ("Repo") markets. That is not only critical to the U.S. Treasury and U.S. taxpayer to ensure the lowest cost of borrowing, but such goals are essential given the importance of these markets, in particular the Repo market, to the functionality of national and global markets as well as for the implementation of U.S. monetary policy. U.S. Treasury securities also serve as the primary benchmark for the rest of the fixed income markets and the Repo market

[1] The IDTA was formed to create a forum for independent dealers and traders to discuss and consider the impact of market operational issues on their industry sector and to advocate for constructive solutions that promote the liquidity and efficiency of capital markets. The objective of the IDTA is to form an interactive line of communication with regulators and other relevant policy makers, with particular emphasis on the Securities and Exchange Commission, the Treasury Department, and the Federal Reserve Bank of New York. The IDTA is composed of six organizations registered as broker-dealers or futures commission merchants (or affiliates of such organizations) that are not affiliated with a bank holding company. For additional information, visit IDTA's web site: www.idtassoc.com.

[2] Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule With Respect to U.S. Treasury Securities, 87 Fed. Reg. 64610 (Oct. 25, 2022), *available at* https://www.govinfo.gov/content/pkg/FR-2022-10-25/pdf/2022-20288.pdf (hereinafter "Proposed Rule").

is the basis of the Secured Overnight Financing Rate (SOFR) Data. It is with those indisputable prerequisites that the IDTA has in the past spoken out about policies that will promote the efficiency, fairness, safety, competitiveness and liquidity of the Treasury and Repo markets. The IDTA has analyzed the Proposed Rule and welcomes the opportunity to provide the SEC comments on these proposed rules.

For the purposes of the Proposed Rule and the comments provided, the IDTA would like to clarify the terminology used to describe certain transactions. The Proposed Rule suggests that bilateral trades are uncleared, however, they are cleared, but not *centrally* cleared. In those instances where the Proposed Rule references only a "clearing" requirement, it should be noted that this is a requirement for transactions to be *centrally* cleared.

I. INTRODUCTION & SUMMARY

Clearing and settlement of financial market transactions is an essential element of safe and efficient financial markets in managing the risk that a trade defaults or fails to settle. Proper margining by the counterparties provides such protection. The actual process of clearing and settlement will vary by the type of transaction. Transactions in equities differ from fixed income, commodities and currency cash transactions. Similarly, cash transactions differ from derivatives and financing transactions.

Within the U.S. government securities markets (Treasury securities and Repos), trades between dealers who are members of the Fixed Income Clearing Corporation ("FICC") are centrally cleared on a *net* basis at the FICC. FICC is the only Treasury market central counter party ("CCP") currently registered with the SEC. IDTA member firms are all members of FICC. The role of a CCP is essentially to become the buyer to every seller and the seller to every buyer, and to properly margin each trade to ensure that the clearinghouse has sufficient resources to settle any failed trades or absorb the failure of a member of the clearinghouse.

Dealer to customer/institutional counterparty trades are generally bilateral between the parties where the counterparties utilize the services of various clearing and custody banks and the Fedwire Securities Service ("Fedwire") operated by the Federal Reserve Banks. In the case of members of the IDTA, their "customer" is an institutional counterparty. Trades intermediated by Interdealer Brokers ("IDB") may be centrally cleared, if the IDB is a member of FICC, or bilaterally cleared through a clearing bank and the Federal Reserve's system Fedwire, or through a hybrid approach. There are also bilateral transactions that are centrally cleared, which Depository Trust and Clearing Corporation ("DTCC")/FICC refers to as the Prime Broker Model.[3] The Prime Broker Model is a dealer-to-institutional counterparty bilateral trade that is given up to FICC as opposed to the bilateral trade being between the dealers and the customer. Although unclear, in the Proposed Rule, this type of trade seems to potentially fit into the policies articulated in the proposed amendments to Rule 15c3-3.[4] However, because the margin in such institutional transactions is assessed through a haircut, as opposed to a separate customer account, the debit

[3] Depository Trust & Clearing Corporation, *How To Access Treasury Clearing as an Indirect Participant* https://www.dtcc.com/USTclearing/how-to-access-treasury-clearing-as-an-indirect-participant.
[4] Proposed Rule at 64637.

provides little substantive relief from the effect of gross margining. As will be explained below, this prioritizes the need to address the issues related to an important and unfortunate aspect of the FICC Sponsorship program, referred to as the Excess Capital Premium ("ECP") charge, that creates a material limitation affecting small and middle market broker dealers' ability to access the Sponsorship program.

Aside from its size and importance to the overall U.S. and global financial systems, another unique hallmark of the Treasury market is the diversity of participants on the sell-side and buy-side. The above examples of the various methods that trades get cleared and settled reflect the need to accommodate the variety of transactions and participants.

While the IDTA believes in the important role that central clearing can play in financial markets, converting the U.S. Treasury and Repo markets completely over to central clearing is a significant and material change that should be considered carefully. The U.S. Treasury and Repo markets are not and should not be confused with the pre-Dodd Frank[5] swaps market. The pre-Dodd Frank swaps market was an unregulated and uncleared market involving less liquid and unique transactions that by their very nature, represented materially different risks of default and failure than the U.S. Treasury and Repo markets.

Supporting central clearing in principal cannot be the basis for imposing a mandate. Before any move toward a central clearing mandate, the SEC and other appropriate government agencies (e.g. U.S. Treasury, Federal Reserve Board of Governors) must conduct more data-based research on how such a policy change will affect the Treasury and Repo markets. In particular, that research must ensure that a move toward central clearing enhances, and does not constrict, liquidity; increases, and does not decrease, competition in the market; and lowers, and does not raise, concentration of risk in the market. The cost of central clearing for dealer to institutional counterparty trades under the Proposed Rule, when compared with alternative clearing methods currently utilized, could materially change the economics of a transaction for institutional investors, which would then negatively affect both liquidity and competition. These risks need to be understood before imposing such a mandate.

Any changes meshing this large market with its diversity of participants in the Treasury market with a regulatory mandate for central clearing will lead to unintended consequences that must be fully understood and avoided, particularly if they could increase the cost of borrowing for the U.S. government, increase concentration of risk in the largest systemically important institutions, and reduce competition, making it harder for smaller and middle market broker dealers to meaningfully participate in this important market.

Before a rule is finalized, it is critically important that all of these issues are analyzed based on data analysis and review. If approved, any implementation plan should be phased and supported by data reviewed by the Interagency Working Group and most specifically the Treasury, the Federal Reserve Board of Governors and the Federal Reserve Bank of New York ("FRBNY"), as those agencies are most closely involved in the Treasury and Repo markets from a debt management perspective, and regarding financial stability and monetary policy. Analyzing this

[5] Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203.

data should also include input from a broad array of market participants including institutional investors.

II. IDTA COMMENTS ON PROPOSED RULES

a. Increased Transaction Costs and Margin Requirements

Under the Proposed Rule, FICC would calculate, collect, and hold margin for positions of a direct participant separate from those customers or other indirect participants that are sponsored into the clearing agency.[6] The IDTA is very concerned about how the Proposed Rule will affect the cost and overall economics of dealer to institutional counterparty Repo transactions as a result of additional clearing costs of transacting through FICC and the increase in margin requirements due to mandated central clearing. The ultimate effect of these increased costs can be expected to negatively affect liquidity in the Treasury and Repo markets.

Increased Transaction Costs: It is critical for the Commission to better understand the cost difference between current bilateral trades that are cleared through Bank of New York Mellon (BONYM) and the Fedwire, and an identical transaction that must be centrally cleared. This cost across a volume of trades is borne by the clients. The cost of a bilateral trade clearing through Bank of New York Mellon versus FICC is more than doubled. While this may vary across the IDTA membership, IDTA members are currently paying BONYM about $3.00 for a Fedwire ticket. If, instead, the transaction was centrally cleared through FICC, the cost would exceed $7.00. This is because FICC imposes intraday and end-of-day position management charges, among other charges, making it materially cost prohibitive to transact with FICC and thereby increasing the cost of trading to the end customer.

Increased Margin Requirements: The Proposed Rule imposes a fundamental shift from a system of margining the net position of a member's activity to a system based on gross margin of each individual customer/institutional counterparty of a member. Under the current structure, each dealer executes Repo transactions with their counterparties and in the clearing process, in conjunction with a clearing bank and Fedwire, charges each counterparty margin and effectively nets customer risk internally. The Proposed Rule would require customers to be margined individually and would require FICC to collect margin even where a members' overall customer position is netted. This exponentially increases the margin requirement on all those involved in the U.S. Treasury market. Clients (institutional investors) will be forced to bear a cost burden, which, as mentioned above, changes the economics of the transactions, and which will affect liquidity in the Treasury market and translate into higher costs for the U.S. Treasury to finance its debt. This is a liquidity issue, as the economics of the transactions influence whether a market participant will less inclined to engage in the transactions, reducing liquidity in the Treasury and Repo markets.

In addition, as mentioned earlier, members of FICC have a special margin surcharge if their margin requirement is greater than their capital (the ECP charge). The effect of the application of this ECP on the smaller, independent broker dealers is material. For a broker-dealer operating its

[6] Proposed Rule at 64634.

own business, it is certainly a valid way to limit leverage, however, the ultimate effect of the ECP is exacerbated when customer/institutional counterparty margin is included in the calculation, and the surcharge punitively prevents smaller independent broker-dealers from sponsoring institutional counterparties/customers.

This method of gross margin is utilized currently by FICC under the Sponsored Model. Today, the FICC sponsorship program has 30 sponsoring members and 1900 sponsored members. The volume of sponsored transactions is dominated by the largest banks.[7] Margin is not standard, meaning some banks charge the same margin that they charge in the prime brokerage accounts (i.e. financing the difference themselves), some charge the FICC margin, and others charge a two percent flat rate. The largest firms (defined under the Sponsorship program as firms with $5 billion or more of capital) have essentially unlimited capacity to sponsor counterparties trades. The combination of gross margining and ECP currently in use under the Sponsored Model, and what is prescribed in the Proposed Rule, effectively prevents smaller and middle market broker dealers from materially participating in the Treasury market.

To illustrate the effect of the Proposed Rule's margin approach combined with the FICC ECP rule on members' capital requirements, and on the members' ability to continue to intermediate the U.S. Treasury market, see the below chart. An average middle market firm can currently be operating with $250 million of Net Capital and managing its FICC VAR to be at or below its Net Capital (Scenario 1 or 2 below). Under the Proposed Rule, a member can easily fall into Scenarios 3, 4, or 5—or even worse—without changing its business. Due to the new gross margin requirement, a firm that had a FICC VAR of $200-250 million can easily see its VAR increase to $300-500 million. Even without ECP coming into the equation this is a problem for these firms and will require them to pass on significantly more margin to their customers. However, bringing ECP into the equation exponentially and materially increases the members' FICC margin requirement beyond the actual $300-500 million margin requirement. As illustrated below, this same member operating comfortably currently with $250 million of Net Capital, can end up with a margin requirement of 2-5 times of its current requirement and as high as a $1 billion margin requirement.

[7] Depository Trust & Clearing Corporation, Daily Transactional Data on GSD Sponsored Service (Apr. 22, 2020), https://www.dtcc.com/dtcc-connection/articles/2020/april/22/daily-transactional-data-on-gsd-sponsored-service-now-available.

Scenario	1	2	3	4	5
Net Capital	250,000,000	250,000,000	250,000,000	250,000,000	250,000,000
FICC VAR	200,000,000	250,000,000	300,000,000	400,000,000	500,000,000
Excess VAR over Net Capital	-	-	50,000,000	150,000,000	250,000,000
VAR/Net Capital	0.80	1.00	1.20	1.60	2.00
Excess Capital Premium (ECP)	**-**	**-**	**60,000,000**	**240,000,000**	**500,000,000**
Total VAR Charge	200,000,000	250,000,000	360,000,000	640,000,000	1,000,000,000
VAR in excess of Net Capital	-	-	110,000,000	390,000,000	750,000,000
Multiple of net capital	-	-	0.44	1.56	3.00

The result of this aspect of the Proposed Rule (and the current Sponsorship program) will make it extremely difficult for smaller and middle-market broker dealers to compete with the largest global banks that have unlimited capital and are able to significantly reduce and even eliminate haircuts on trades. With less competition from a wider array of broker dealers, costs to investors will be subject to the will of those systemically important financial institutions. If the goal is to have competitive and diverse liquid markets, the Proposed Rule must be changed to ensure that the punitive and cumulative effect of gross margining and that the ECP does not excessively burden smaller, middle-market broker dealers and their institutional investor customers.

Proposed Options to Participate in Central Clearing: The below chart is indicative of the IDTA's understanding of the different models for Central Clearing that are being considered at present to meet the requirements of the Proposed Rule.

	Margin Netting	**ECP Charge**	**15c3-3 Relief**	**Need to be a Prime Broker**
Sponsored Model	No	Yes	Yes	No
Prime Broker Model	Yes, for customers (not proprietary)	Yes	No	?

As detailed above, under the Sponsored Model, there would be a gross margin requirement by customer/institutional counterparty and the ECP charge would greatly limit the ability of smaller middle-market broker dealers from participating in this market. While 15c3-3 relief is being provided and is helpful to the market in general, due to the nature of smaller, independent broker dealers' business acting as intermediaries, it does not change anything for them as they may not currently be subject to reserve calculations.

Under the Prime Broker model, which is a give up arrangement, it is unclear if smaller middle-market broker dealers would be able to participate in this model because of the following questions:

- Would the dealer need to register as a prime broker? This would be a lengthy and costly process for middle market broker dealers.
- Even if a firm does not need to be a Prime Broker, it is unclear how this model would work for smaller independent broker dealers. Currently smaller independent broker dealers act as counterparties to their institutional customers. Under the Prime Broker Model, they would not be a counterparty, rather, the customer would trade directly with the third party and the trade would be given up to smaller independent broker dealer for clearing.
- There is also a question regarding the ability to rehypothecate collateral under the Prime Broker Model.[8] It is the IDTA's understanding that under this model, the dealer would not get a 15c3-3 offset for rehypothecating collateral. How would this apply to smaller and middle-market independent broker dealers that are not currently subject to reserve calculation requirements.

The Proposed rule lacks clarity on these important issues that will materially affect the practical accessibility of the Sponsorship program by smaller and middle market independent broker dealers. Any final rule must be unambiguous that registered clearing agencies need to review policies, like the ECP, to ensure they don't reduce the ability of smaller firms to competitively access the Sponsorship program under the rule.

b. Impact on Competition

Increasing the number of centrally cleared transactions does not sufficiently account for the rising concerns surrounding competitiveness and liquidity in the marketplace. Leveling the playing field among firms is paramount. However, the largest institutions have natural advantages, as well as advantages by virtue of current SEC approved FICC rules that have disproportionately disadvantaged smaller and middle-market broker dealers. This disparity could worsen depending how the Proposed Rule is implemented, if adopted. For example, smaller and middle-market broker dealers have had to shrink their business models as a result of the aforementioned ECP charge that is imposed on such dealers. As previously noted, under the current structure, the ECP is a charge imposed on member firms when their required deposit exceeds its excess net capital. While the ECP charge aims to mitigate default risk that a member could pose, the charge results in small and middle-market dealers being competitively disadvantaged against large institutions.

The need to ensure an adequate competitive environment for small and middle-market independent broker dealers in the Treasury and Repo markets has been the subject of important academic research. In December 2020 two then-former officials of the Federal Reserve Board of Governors (Nellie Liang and Pat Parkinson) wrote in a Brookings Institution research paper about

[8] Proposed Rule at 64645.

liquidity in the Treasury markets that "broader central clearing through a central counterparty clearinghouse (CCP) would increase the supply of liquidity by the largest bank affiliate dealers by easing constraints because bank capital and leverage requirements recognize the risk reduction from multilateral net of centrally cleared trades. The rules of the CCP should be designed to enhance the ability of smaller bank and independent dealers to compete and not further increase the dominant positions of the largest dealers."[9]

Liang and Parkinson added, "To be sure, central clearing raises concerns about concentrations of risk in CCPs and in clearing firms, so expanded clearing would make their regulation even more important."[10]

Consistent with this concern, in 2021, data released by the FRBNY demonstrates the level of concentration in the Repo markets.[11]

As a Whole, Inter-Dealer Activity is not Concentrated

	FICC DVP + GCF Repo		FICC DVP		GCF Repo	
	Top 5 Share (Percent)	Top 10 Share (Percent)	Top 5 Share (Percent)	Top 10 Share (Percent)	Top 5 Share (Percent)	Top 10 Share (Percent)
Cash-lenders	44.2	63.6	45.2	64.8	77.2	95.9
Cash-borrowers	40.2	56.7	41.2	57.5	80.7	95.9
Net-positions	28.4	42.0	28.6	42.0	64.5	85.6

Source: Authors' calculations based on confidential daily data from the OFR repo collection for 2020.

In order to ensure diverse and liquid markets, firms representing all key segments of the market must participate on a level playing field. Small and middle-market dealers should be encouraged to increase their participation in FICC. Nonetheless, FICC rules that are well intended to protect the clearinghouse if a systemically important institution were to fail, in actuality have impaired the ability of smaller and middle-market independent broker dealers to compete. The largest financial institutions have unlimited authority to sponsor clients directly into FICC while middle-market firms must adhere to formulaic limits based on their capital and risk and the application of the ECP. Furthermore, in 2017, FICC established the Capped Contingency Liquidity Facility ("CCLF") obligations, with the objective of maintaining sufficient liquid resources to settle all outstanding transactions of a defaulting FICC member. The CCLF requires all Tier 1 netting member firms to have in place a liquidity plan to provide FICC with financing options should a systematically important financial institution ("SIFI") default. The size and cost

[9] Nellie Liang and Pat Parkinson, *Enhancing Liquidity of the US Treasury Market Under Stress*, Brookings Institution 3 (Dec. 16, 2020) https://www.brookings.edu/wp-content/uploads/2020/12/WP72_Liang-Parkinson.pdf.
[10] *Id*.
[11] Federal Reserve Bank of New York, *How Competitive are U.S. Treasury Repo Markets?* (Feb. 18, 2021), https://libertystreeteconomics.newyorkfed.org/2021/02/how-competitive-are-us-treasury-repo-markets/.

of a firm's liquidity plan is tied not only to its own exposure at FICC, but also to the maximum exposure of the largest SIFI banks. IDTA members have reduced their portfolios as part of their CCLF liquidity plans. At the same time, SIFIs have increased the size of their portfolios, and correspondingly, the very risk that the CCLF was designed to reduce.

The IDTA urges the Commission to further review and analyze the effect of the Proposed Rule on competitiveness in the U.S. Treasury and Repo markets. Not doing so would be inconsistent with President Biden's Executive Order on Competition ("Executive Order"), which requires regulators to ensure that current and proposed rules enhance, not hinder, competition in the markets they oversee.[12] The Executive Order utilizes a "whole-of-government approach" to address excessive concentration, abuses of market power, unfair competition, and the effects of monopoly.[13] More specifically, the SEC is identified as one of the agencies whose rules must seek to resist consolidation and promote competition, "including the market entry of new competitors.[14]

Failure to do so could result in the market share of the largest banks continuing to grow—both increasing concentration of risk in the market and reducing competitiveness by increasing barriers for smaller and middle market firms. With less competition investors and counterparties could face less robust pricing as a result.

c. FICC Credit Approval

The IDTA believes that relinquishing control of credit approval to a single entity, FICC, poses a significant problem. Particularly, with all transactions going through FICC and where margin requirements can be changed at any time. Every firm has a different appetites and quantitative and qualitative perspectives as it relates to credit analysis. Such perspectives are part of the professional services and expertise that well-run firms offer. Centralization of the credit analysis and approval, is a one size fits all policy for a very multi-faceted issue. By inserting FICC into the center of the credit approval process, firms lose their ability to apply their deeply informed market views. The ability of IDTA members to differentiate themselves in the market is therefore removed by inserting FICC into the process. Small and middle-market dealers and their clients comprise an important and necessary tier of liquidity, which only grows in importance with the increasing financing needs of the U.S. government and the consumer housing market. Disrupting the traditional market-maker role of a broker dealer in these institutional markets will disproportionately affect middle-market institutional broker-dealers who exist to provide sell-side services to institutional investors that choose not to solely trade through the largest banks. Credit analysis and pricing credit risk are fundamental to those services.

III. TREASURY AND TREASURY REPO MARKET LIQUIDITY

As articulated above related to the effect of the Proposed Rule as a result of the higher cost of central clearing, the IDTA has serious concerns about the effect of the Proposed Rule on liquidity in the Treasury and Treasury Repo markets. This is driven primarily by the cost of the

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[12] Exec. Order No. 14036, 86 Fed. Reg. 36987 (July 14, 2021).
[13] *Id*.
[14] *Id*. at 36989.

transactions, and the impact on competition. Within the Economic Analysis sections of the Proposed Rule there is a statement concluding that the Proposed Rule will have a positive impact on liquidity.[15] However, the analysis does little to support such a conclusion. Sole reliance on data from the FRBNY on transactions that are currently centrally cleared only reveals a part of the picture. It is critical to acknowledge and understand how a central clearing mandate will affect the economics of bilaterally cleared transactions that make up a material part of the Repo market. It is undeniable that if, as demonstrated above, the costs of the transactions increase, the economics of the transaction are affected and counterparties may be less willing to execute the trade. If counterparties' willingness to transact declines as a result of the additional costs of central clearing, liquidity in the market can reasonably expected to be adversely affected.

Another important issue that could materially affect liquidity in the Treasury cash and Repo markets, appears to the IDTA as, hopefully, an unintended consequence of the Proposed Rule is the effect that a central clearing mandate will have on state and local governments. IDTA members work extensively with state and local governments on a variety of cash and financing transactions. Investment policies and, *in several circumstances under state statute,* require 102% collateralization from their financial institutions. Central clearing of such trades will trigger a problematic level of margin that could create a conflict with a state or local government's investment policies and, worse, state law. If a firm is receiving cash from states and novating over to FICC, that firm is required to give states and municipalities a haircut. FICC will also charge an additional haircut, which becomes margin punitive. This doubles the collateral that is required and minimizes capital efficiency. This would reasonably affect the economics of the transaction and the level of activity by that state or local government in the Treasury and Repo markets.

Additionally, it is important to appreciate that states and localities are governed by the statute of their state. New York state law and rules of the New York Department of Financial Services are not in a position to govern the investment policies of other states. States will be forced out of the Treasury Repo market to other transactions as a result of the additional costs and conflicts with their investment policies or state law. With such disruption, those transactions may carry additional risks for the state and local governments and also negatively affect liquidity in the Treasury and Repo markets.

IV. CONCLUSION

A one-size-fits-all rulemaking could lead to unprecedented consequences for the markets. Smaller and middle-market independent broker dealers play an important role in providing diversity of liquidity in the market. They are also depended upon to provide critical liquidity during volatile times, such as September 2019 and during the height of the COVID crisis in March 2020 when the largest systemically important institutions were not able to provide such liquidity.[16] Therefore, the Proposed Rule should be amended to unambiguously remove the barriers to entry

[15] Proposed Rule at 64662.

[16] Anbil, Sriya, Alyssa Anderson, and Zeynep Senyuz, *What Happened in Money Markets in September 2019?*, FEDS Notes, Board of Governors of the Federal Reserve System (Feb. 27, 2020), *available at* https://doi.org/10.17016/2380-7172.2527.

and competition that have been described in this Comment Letter. In order to reduce systemic risk in the Treasury and Repo markets, there must be greater diversity of market participants.

While conceptually, increasing the number of centrally cleared transactions on its own, can lessen certain counterparty risk, before mandating central clearing, it is absolutely critical to conduct data-supported research on how such a mandate would affect liquidity, costs and competitiveness of the market. Furthermore, how such a policy is implemented is critically important not only to lessening risk in the market, but also to ensuring that such policies result in more, not less, competition and less, not more, concentration of risk in the market.

Other issues must be reviewed before finalizing and implementing the proposed rules, for example, the single point of failure created by central clearing. Any concentration of risk is compounded by the concentration risk by just one of these large systemically important financial institutions. Concentration of risk is also, by definition, anti-competitive, and thus inconsistent with the goals of Dodd–Frank Wall Street Reform and Consumer Protection Act.

Clearinghouse rules can directly affect the competitiveness of the markets. Rules that provide a competitive advantage to the largest, systemically important institutions through the application of well-intended, but one-size-fits-all policies will both increase concentration risk in the market and narrow diversity of liquidity in the U.S. Treasury market at a time when more diverse liquidity is needed. Furthermore, such policies make it increasingly harder for small and independent broker dealers to compete. Until there is greater clarity on the impact of mandatory central clearing, and until the SEC proposed rules on clearinghouse governance and conflicts of interests are finalized, it is difficult to assess how a central clearing mandate would be implemented.

It must be fully recognized that it will take significant time to conduct adequate data-driven research on a central clearing mandate. There also must be sufficient lead time and coordination with other regulators (i.e., the Interagency Working Group, certain state regulators) to understand more fully how such a wile would affect the Treasury and Repo markets. Finally, the Commission must recognize that the operational and technology issues related to expanding central clearing in the Treasury and Repo markets require time. This is particularly true given that DTCC is currently implementing a major technology project to shorten the settlement cycle to T+1.

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The Proposed Rule has significant implications for all market participants. As previously noted, we urge the Commission to consider how the Proposed Rule will shift the current market structure and further inhibit competition. The IDTA thanks the Commission for considering our comments. Should you have any questions, please contact our outside regulatory counsel, Micah Green at Steptoe & Johnson LLP at [redacted].

Sincerely,

Independent Dealer and Trader Association

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