# Engmann Options, Inc.

December 6, 2010

Elizabeth M. Murphy
Secretary
Securities & Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: File Number SR-FICC-2010-09

Dear Ms. Murphy:

Thank you for the opportunity to address the application of New York Portfolio Clearing ("NYPC") to be a DCO under CFTC and SEC rules. I urge your approval of this application as it will improve the safety and soundness of the clearing of fixed income instruments and their derivatives through the application of cross-margining of portfolios consisting of futures and other derivatives with the underlying cash fixed income instruments.

As an active participant in the securities industry for the last 30 years, I have tirelessly strived to improve the efficiencies of the clearing systems for equities, options and futures as a way to encourage hedging through margin offsets, as well as to reduce systemic risk to clearinghouses in member liquidation situations. Most recently at Fimat USA (now Newedge) where I served as the Head of North American Equities, we pioneered the use of portfolio margining for customers under the SEC pilot that began in 2005. The introduction of portfolio margining - long utilized by the broker-dealer community - provided incentives for customers to gain margin savings from hedging their portfolios within the US margin environment (instead of offshore schemes designed to avoid U.S. margin rules.) This has had the effect of improving the risk profile of those customers eligible to use portfolio margining with the comfort that all assets in the portfolio margin account are onshore and protected by U.S. clearinghouses and bankruptcy laws. The portfolio margining program has operated very successfully over these past volatile years with improved risk management capabilities among U.S. brokers and clearing firms who have reported no significant problems with portfolio margining.

Hopefully, the language I and others worked to include in the Dodd-Frank bill regarding the one area missing from portfolio margining - index futures - will cause the CFTC and the SEC to resolve their differences and allow index futures and index options to be included in one portfolio margin account. However, there are other provisions in that bill which make the establishment of cross-margining in the fixed income areas as envisioned by NYPC imperative. For example, Section 725(h) of the bill allows clearinghouses to refuse to link with other clearinghouses purportedly to avoid credit risk of the other clearinghouse "to reduce systemic risk". However, this provision actually increases systemic risk as it prevents the CFTC or the SEC from mandating cross-margining of products cleared in different industry utilities, thus discouraging hedging and creating potential systemic risk whenever a member with large offsetting positions at different clearinghouses needs to be liquidated without the coordination between those clearinghouses. This actually occurred in the Fall of 2008 with the Lehman fixed income and futures portfolio, where offsetting positions were liquidated without coordination between the two clearinghouses (CME and FICC), to the detriment of Lehman creditors, which is chronicled in John Hintze's story "Clearer Cooperation Could Have Produced Bigger 'Pot' of Lehman Assets for Creditors" published in *Securities Industry News* on May 9, 2010.

This background makes it imperative that the NYPC portfolio margin approach be implemented to give industry participants, for the first time, an effective incentive to receive margin benefit for hedging their fixed income positions both in the cash and derivative markets. The NYPC approach also solves the liquidation problem that currently exists in the two pot approach used by the CME and FICC, since all positions are treated as in one account and can be liquidated together as hedged positions at the same time. Hopefully this approval and the success of the NYPC approach will encourage other clearinghouses in the securities, fixed income and futures markets to adopt similar cross-margining or portfolio margining approaches for the overall benefit to industry participants and to improve the safety and soundness of our financial system. The prompt approval by the CFTC and the SEC of the NYPC application will be a good beginning of that process.

Thank you for the opportunity to comment on this application. The views expressed in this letter are mine and those of my firm, and may not represent the views of the entities with whom I have been previously affiliated which are listed below for reference only.

**Douglas Engmann, President**
**Engmann Options, Inc.**

Former Board Member:

- National Securities Clearing Corporation - past Chairman of the NSCC Risk Committee
- Options Clearing Corporation
- Pacific Stock Exchange-past Vice-Chairman and Acting Chairman

- Former Head of North American Equities, Fimat USA and Newedge USA
- Former EVP and Vice-Chairman ABN AMRO Inc.
- Former CEO, ABN AMRO Clearing and Execution Services