Morgan Stanley

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VIA E-MAIL: secretary@cftc.gov and rule-comments@sec.gov

Mr. David A. Stawick, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Notice of Filing of a Proposed Rule Change to Introduce Cross-Margining of Certain Positions Cleared at the Fixed Income Clearing Corporation and Certain Positions Cleared at New York Portfolio Clearing, LLC, File Number 34-63361; the application of New York Portfolio Clearing for designation as a derivatives clearing organization pursuant to Section 5b of the Commodity Exchange Act

Dear Mr. Stawick and Ms. Murphy:

Morgan Stanley appreciates the opportunity to respond to the request of the Securities and Exchange Commission (the "SEC") soliciting comments on the Fixed Income Clearing Corporation's ("FICC") Notice of Filing of a Proposed Rule Change to Introduce Cross-Margining of Certain Positions Cleared at the Fixed Income Clearing Corporation and Certain Positions Cleared at New York Portfolio Clearing, LLC ("NYPC") and to the application of NYPC to the Commodity Futures Trading Commission ("CFTC" and together with the SEC, the "Commissions") for designation as a derivatives clearing organization ("DCO") pursuant to Section 5b of the Commodity Exchange Act (collectively, the "NYPC Applications").

We believe that NYPC represents a credible attempt to deliver more competition in the U.S. futures market – a central goal of the framers of the Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act").[1] Indeed, as set forth in more detail below, NYPC's approach to US futures clearing services will both promote competition and foster margin efficiencies.

Morgan Stanley's Interest in the NYPC Application

Morgan Stanley is a global financial services firm that, through its wholly-owned subsidiary, Morgan Stanley Fixed Income Ventures, Inc. (alongside five other leading market participants), holds a minority ownership stake in NYSE Liffe Holdings. NYSE Liffe Holdings, the majority

[1] *See* Section 726(b) of the Dodd-Frank Act.

owner of NYSE Liffe US (a designated contract market registered with the CFTC), is majority owned by NYSE Euronext, which with The Depository Trust Clearing Corporation ("DTCC"), jointly owns NYPC. In addition, a senior officer of Morgan Stanley anticipates serving as a member of the NYPC Board of Directors. Finally, Morgan Stanley & Co. Incorporated ("MS&Co."), a wholly-owned subsidiary of Morgan Stanley and a futures commission merchant registered with the CFTC, anticipates clearing transactions on NYPC in its joint capacity as a clearing member of NYPC and of The Fixed Income Clearing Corporation ("FICC").

NYPC will create a more level playing field for multiple exchanges

Unlike virtually all other currently registered DCOs, NYPC is not wholly owned or controlled by an affiliated exchange for which it provides clearing services; it is, as noted, a joint venture of NYSE Euronext and DTCC.[2] NYPC's unique "open access" clearing model, as described in its application, will create a more level playing field for multiple exchanges to compete, thereby lowering trading fees, reducing tick size and tightening spreads, and leading ultimately to increased trading volume.

NYPC will deliver portfolio margining of futures and fixed income instruments

The Dodd-Frank Act specifically authorizes the Commissions, in mutual consultation, to establish a portfolio margining program under which firms jointly registered as futures commission merchants under the CEA and as broker-dealers under the Exchange Act could hold securities and futures positions and related collateral in the same account, in compliance with the terms and conditions of such program. NYPC is positioned to play a vital role as a market-stabilizing influence on the implementation of portfolio margining pursuant to the Dodd-Frank mandate. Moreover, NYPC's "single pot" portfolio margining system – which will permit cash positions in Treasuries to be combined with economically related futures positions in clearing members' proprietary accounts – will enhance the ability of firms efficiently to manage interest rate risk. It will also give NYPC transparency to risks across asset classes, thus permitting regulators to better monitor and mitigate risk concentration. Finally, the one-pot model will enable NYPC to reduce delivery costs through a streamlined, "locked in" delivery mechanism that offers delivery of expiring futures contracts into cash bonds held at FICC, thereby minimizing fails and squeezes, improving price convergence and reducing overall stress on the settlement system.

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[2] *See* Comments of the U.S. Department of Justice in response to the Department of the Treasury's request for comments on the Regulatory Structure Associated with Financial Institutions, 72 F.R. 58939, October 17, 2007 (arguing that "the control exercised by futures exchanges over clearing services has made it difficult for exchanges to enter and compete in the trading of financial futures contracts").

NYPC's margin and risk management methodologies are designed to increase efficiency without negatively impacting market stability

NYPC will set margin levels – for customer and proprietary accounts alike – using a Value at Risk ("VaR") methodology that will require a 99% confidence level for all portfolios, regardless of composition as between cash and derivatives positions. Based on an historical simulation method that is also used currently by FICC, NYPC's VaR calculations will make extensive use of historical information to simulate forthcoming market environments and calculate projected profit and loss for portfolios on the basis of these simulated environments. The method has been extensively tested by both NYSE Euronext and FICC, and is exemplary of NYPC's capacity to deliver efficiencies without negatively impacting the stability and soundness of the clearinghouse.

We appreciate the opportunity to comment to the Commissions in support of the NYPC Applications. We look forward to the timely approval of the NYPC Applications and would be pleased to discuss any questions either Commission or Commission staffs may have with respect to this letter. Any such questions may be directed to Jack DiMaio, at (212) 761-4102 or Dexter Senft, at (212) 761-2466.

Very truly yours,

Jack DiMaio
Managing Director