SR-FICC-2010-09 4

ronin
CAPITAL LLC

December 10, 2010

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

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

Re: **Notice of Filing of a Proposed Rule Change by the Fixed Income Clearing Corporation, SEC File #34-63361; and, the application of New York Portfolio Clearing for designation as a derivatives clearing organization pursuant to Section 5b of the Commodity Exchange Act**

Dear Ms. Murphy and Mr. Stawick:

Ronin Capital LLC ("Ronin") appreciates the opportunity to comment on the proposed rule amendments submitted by the Fixed Income Clearing Corporation ("FICC") to allow "one-pot" cross-margining for certain positions held at its Government Securities Division ("GSD") with positions held at New York Portfolio Clearing ("NYPC").

Ronin is a registered broker-dealer and, either directly or indirectly through an affiliate, is a member of all the principal securities and futures exchanges in the U.S. and Europe. Ronin is engaged exclusively in a proprietary trading business and does not conduct a customer business and does not have custody of any customer funds or securities. All of Ronin's equity members are actively engaged in the management and conduct of the Firm's business and there are no passive investors in the Firm. Ronin is also a clearing member in the GSD of FICC and a full clearing member of the CME. Ronin is also a dealer member of LCH RepoClear in the U.K. The Firm actively trades equity securities, corporate bonds, government bonds (e.g., U.S. Treasuries, Bund, Bobl, Schatz, Gilts and U.K. Treasuries), equity options, index options, index futures, interest rate futures and commodity futures (e.g., oil, natural gas, grains and precious metals).

First, we commend FICC for addressing this important issue. We have long supported cross-margining for futures and related securities. Indeed, as an index options market maker, Ronin has direct experience with the effectiveness of "one-pot cross margining" in assessing prudential margin requirements (i.e., margin requirements that are consistent with the risk) and reducing systemic risk by ensuring that liquidity providers are not pushed into forced liquidations during periods of market stress.[1] Within this context **we strongly support FICC's proposal for "one-pot" cross margining** because as

[1] *Here we note that the cross-margining arrangement between CME and OCC has utilized the "one-pot" approach since its inception more than 20 years ago. This arrangement has withstood the test of time and fosters market liquidity especially during periods of market stress. It should be noted that the portfolio based, or "one-pot" approach is entirely consistent with the haircut requirements for such positions under the Commission's Net Capital Rule which has also met its objectives under a variety of market conditions.*

noted in its release the *"...proposed one-pot cross-margining method would allow members to post margin based on the net risk of their aggregate positions across asset classes".* Ronin currently utilizes the limited cross margining facilities available under the existing CME/FICC Agreement. Unfortunately our experience indicates that the existing cross-margining capability between FICC and CME is flawed and may well impose excessive margin requirements driving liquidity from the marketplace in periods of market stress. Indeed, it is precisely these flaws that prompted Ronin to request that the CME and FICC adopt a true portfolio based (i.e., "one-pot") approach for cross-margining on multiple occasions.[2]

On the other hand, we are concerned that some of the provisions imposed under the FICC/NYPC agreement coupled with the provisions of NYPC Rule 801 will undermine the effectiveness of FICC's innovative proposal. For example, Section 16 of the NYPC Agreement states that FICC *"...will not, without the prior written consent of NYPC amend the Cross-Margining Agreement dated January 2, 2004 between FICC and Chicago Mercantile Exchange ("CME")...if such further amendment would adversely affect NYPC's right to cross-margin positions in Eligible Products prior to any cross-margining of CME positions with FICC-cleared contracts..."* This provision coupled with NYPC Rule 801, which appears to govern the terms and conditions under which other DCMs and DCOs can obtain access to benefits of one-pot cross margining, may well impede other markets from participating in the proposed cross-margining facility. Specifically, in order to gain access to FICC contracts for one-pot cross margining the DCM or DCO must: (i) execute a limited purpose participant agreement; (ii) submit the relevant trades to NYPC with NYPC assuming the role of central counterparty; (iii) agree to be bound by the rules of NYPC; (iv) contribute to the NYPC guarantee fund; (v) agree to participate using uniform risk management policies, systems and procedures as adopted by FICC and NYPC; and, (v) agree to the reasonable allocation of clearing fees between NYPC and the DCO taking into consideration such factors as the cost of services (including capital expenditures incurred by NYPC). Given the foregoing provisions any DCM or DCO who seeks to use of one-pot cross margining with FICC cleared contracts must: (i) effectively abdicate any authority over its margin practices, (ii) abide by its competitors rules which may conflict with the terms of its own rules, (iii) contribute to its competitors clearing fund, and agree to allocate a portion of its revenues to its competitors (including an amount sufficient to compensate its competitor for the capital expenditures required for the competitor's start up). Frankly, we find it difficult to believe that any DCM, or its affiliated DCO, would accept such onerous terms.

In conclusion, portfolio based ("one-pot") cross-margining can substantially enhance the safety and soundness of the clearing and settlement process for Treasury Securities, Futures and Repo activity. These enhancements will act to foster market liquidity even during periods of market stress. However, the provisions of the FICC / NYPC Agreement coupled with NYPC's proposed Rules will likely undermine these benefits by further fragmenting the clearing and settlement mechanisms. In our view the resulting fragmentation will actually increase systemic risk during periods of market stress. Further, there does not appear to be any legitimate business justification for FICC to deny the CME, or any other DCM/DCO, access to FICC cleared contracts for "one-pot" cross margining purposes on the same terms enjoyed by NYPC. Indeed, we believe that offering "one-pot" cross margining on identical terms to other DCM's and DCO's will level the playing field fostering increased competition in a manner that actually enhances liquidity. Finally, the successful operation of the OCC/CME "one-pot" cross margining program for over 20 years demonstrates that a truly open access model to "one-pot" cross margining is not only feasible but desirable from a public policy perspective. We also note that the OCC/CME cross margining initiative actually enhanced liquidity and trading volumes in the relevant markets. We urge the Commission and

[2] *Ronin held a series of meetings and conversations with the staff of FICC and the CME advocating such an approach beginning in September of 2007 and culminating in a letter to FICC's Managing Director on October 28, 2008.*

the CFTC to approve "one-pot" cross margining going forward and require that FICC and NYPC amend their filings to provide for an open access model of "one-pot" cross margining for all relevant DCMs/DCOs on the same terms that NYPC enjoys under the current filing.

Sincerely,

John C. Hiatt
Chief Administrative Officer

cc:

Securities and Exchange Commission
Hon. Mary Schapiro, Chairman
Hon. Kathleen Casey, Commissioner
Hon. Elisse Walter, Commissioner
Hon. Luis Aguilar, Commissioner
Hon. Troy Paredes, Commissioner

Commodities Futures Trading Commission
Hon. Gary Gensler, Chairman
Hon. Michael Dunn, Commissioner
Hon. Jill Sommers, Commissioner
Hon. Bart Chilton, Commissioner
Hon. Scott O'Malia, Commissioner