April 20, 2017

U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549
Attn: Mr. Robert W. Errett, *Deputy Secretary*

RE: FILE NUMBER SR-FICC-2017-003

Dear Mr. Errett:

Ronin Capital, LLC ("Ronin") appreciates the opportunity to respond to a comment letter submitted by the Fixed Income Clearing Corporation ("FICC") to the Securities and Exchange Commission (the "Commission") on April 17, 2017. This comment letter (the "FICC letter")[1] is a rebuttal to a comment letter submitted by Ronin (the "Ronin letter")[2] on April 7, 2017. Both comment letters address a proposed rule change by the FICC to modify the Government Securities Division ("GSD") Rulebook to expand the types of entities that are eligible to participate in the FICC as Sponsored Members.[3]

In the Ronin letter, we assert that the expansion of the Sponsored Membership program to include hedge funds and other leveraged entities dramatically changes the character of the Sponsored Membership program that was originally approved by the Commission in 2005.[4] Our anticompetitive concerns relate to the fact that some Sponsored Members (i.e. risk-taking hedge funds) are not contributing to default loss mutualization or the CCLF. This is confirmed in the FICC letter:

> While Ronin is correct that FICC does not assign responsibility for default loss mutualization or CCLF to Sponsored Members, it fails to point out that those responsibilities are borne by the Sponsored Members' Sponsoring Member, the costs of which FICC understands are factored into the fees the Sponsoring Member charges to Sponsored Members for facilitating Sponsored Member activity.[5]

Simply stated, <u>Ronin is forced to rely on bank-charged fees to somehow remedy a competitive disadvantage</u>. While expanding the Sponsored Membership program in this manner may provide tangible benefits for large global banks in the form of fees and balance sheet relief, certainly non-bank Netting Members are not compensated for this added risk. And yet, the FICC seems to hint at a reasonable solution by stating:

> …historically, the Sponsoring Member-Sponsored Member program has been used to facilitate short-term cash investments by their Sponsored Members and <u>we expect that this will continue</u>.[6]

[1] Letter from Murray Pozmanter, Managing Director, Depository Trust & Clearing Corporation to Robert W. Errett, Deputy Secretary, U.S. Securities and Exchange Commission (April 17, 2017).

[2] Letter from Robert E. Pooler, Jr., Chief Financial Officer, Ronin Capital, LLC to Robert W. Errett, Deputy Secretary, U.S. Securities and Exchange Commission (April 7, 2017).

[3] SEC Release No. 34-80236; File No. SR-FICC-2017-003

[4] Ronin letter p. 1

[5] FICC letter p. 4

[6] FICC letter p. 4

The FICC clearly expects the Sponsored Membership program to be primarily utilized for short-term cash investments. By strictly limiting the expansion of the Sponsored Membership program to only facilitate short-term cash investments, our concerns regarding an anticompetitive burden would be mitigated. Such modification of the current proposal would alleviate our concerns that hedge funds and other highly leveraged entities would increase risk to the FICC (and other Netting Members) without contributing to default risk mutualization. Echoing a call for broader participation by short-term cash investors, State Street also qualifies its support for the expansion of centralized clearing:

> to provide its institutional investor clients with a safe and reliable alternative for the investment of their short-term cash.[7]

Again, supporting an expansion of centralized clearing in a manner that would broaden participation in short-term cash investing is very different from supporting an expansion that would include hedge funds and other risk-taking leveraged entities. The FICC dismisses a possible increase in the proposed CCLF requirement for all Netting Members in its comment letter by stating:

> FICC believes that it is unlikely that Sponsored Member activity will drive the “Cover 1” requirement for the proposed GSD CCLF given that, historically, the Sponsoring Member-Sponsored Member program has been used to facilitate short-term cash investments by their Sponsored Members…[8]

This statement is true, if and only if, the expansion of centralized clearing is limited to cash investing. The Sponsored Membership program is currently limited to registered investment companies. Thus, it isn’t surprising that, historically, the Sponsored Membership program would have a benign effect on the “Cover 1” requirement. Ronin continues to strongly believe the expansion of this program to include hedge funds and other leveraged entities is a dramatic departure from the Sponsored Membership program that exists today. Sponsored risk-taking hedge funds clearly increase the possibility that the “Cover 1” requirement will increase. We certainly believe such expansion is incompatible with forcing smaller GSD Netting Members to participate in the CCLF.

Taking into consideration the comments made in the FICC letter, Ronin again respectfully requests that the Commission deny the FICC’s request to modify the GSD Rulebook to expand the types of entities that are eligible to participate in the FICC as Sponsored Members. We would be supportive of a change that would strictly limit expansion to cash investing entities only. We continue to believe the current expansion of this program to include hedge funds and other risk-taking entities is anticompetitive.

We thank the Commission for considering our comments. If you should have any questions, please contact me at [redacted] or [redacted].

Very truly yours,

Robert E. Pooler, Jr.
Chief Financial Officer

[7] Letter from Stefan M. Gavell, Executive Vice President and Head of Regulatory, Industry and Government Affairs, State Street Corporation, to Brent J. Fields, Secretary, U.S. Securities and Exchange Commission (April 7, 2017). p. 2

[8] FICC letter p. 4