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*By electronic submission to [www.sec.gov](http://www.sec.gov)*

Eduardo A. Aleman  
Assistant Secretary  
Division of Trading and Markets of the Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

**RE: SR-FICC-2017-005 - Notice of Filing of Proposed Rule Change to Establish the Centrally Cleared Institutional Triparty Service and Make Other Changes**

Morgan Stanley & Co. LLC. appreciates the opportunity to comment on the proposed rule change to establish the Centrally Cleared Institutional Triparty (“CCIT”) Service and other changes. In this comment letter, we address the general benefits of central clearing as well as the anticipated specific benefits of the CCIT program in both providing capacity to clients while protecting safety and soundness in the securities financing markets.

***1. Benefits of Central Clearing***

Financial industry regulation has resulted in an alignment of interests across clients and dealers to preserve market liquidity while optimizing balance sheet efficiency and capital usage. This has led to requests for solutions from central counterparties (“CCPs”) to become a source not only of enhanced risk management, but also a greater source of efficiency in securities financing transactions (“SFTs”). Central clearing of SFTs has the potential to meaningfully expand capacity for clients by significantly enhancing market access while mitigating pricing pressures through counterparty risk reduction in the bilateral market.

While SFT clearing has existed in limited segments of the inter-dealer markets, it has accommodated a somewhat narrow range of asset classes and has mostly excluded non-dealer participants. Recently, market participants and CCPs themselves, including the Fixed Income Clearing Corporation (“FICC”), have grown increasingly focused on addressing this gap in accessibility across a wider set of market participants and product offerings in order to expand market access through centralized credit risk management.

New regulations have strengthened the financial system and created conditions for long-term stability. However, they have also resulted in a range of new costs on SFT market participants. Clearing is intended to safely create capacity, manage risk and capture efficiencies for both clients and dealers while incorporating new regulations, without disrupting the existing execution models and relationships that benefit each party in the SFT transaction chain. Central clearing benefits market participants as follows,

and as further discussed in the Office of Financial Research’s white paper, “Benefits and Risks of Central Clearing in the Repo Market”<sup>1</sup>:

- Mitigates reliance on financial institutions resulting in lower risk of liquidity loss, market disruption, and contagion risk
- Generates greater operational efficiencies and standardization as well as pre- and post- trade management
- Creates and preserves capacity through regulatory capital efficiency
  - o Reduces counterparty exposures which benefits the Single Counterparty Credit Limits (“SCCL”) as well Comprehensive Capital Analysis and Review (“CCAR”)
  - o Results in lower risk weighted assets (“RWA”) due to heightened risk management practices associated with QCCPs
  - o Potential for additional netting opportunities which reduces leverage and benefits the Supplementary Leverage Ratio (“SLR”), among other requirements
- Results in increased credit worthiness due to CCP credit ratings, additional guarantees, and core risk governance principles: robust capital, thorough stress testing, standards and disclosures, recovery and resolution planning, adequate liquidity, well-defined default waterfall and management process, and regular monitoring by regulators.

## ***2. Benefits of the CCIT Program***

The CCIT offering provides a solution to SFT clearing requests and requirements that previously have not been addressed for our clients, including agent lenders and beneficial owners. The clearing service will extend FICC’s current CCP services and guarantee of completion of eligible trades to triparty repo transactions between existing Government Securities Division (“GSD”) dealer members and eligible triparty money lenders (i.e., non-Registered Investment Company). Allowing direct member access through limited membership takes into account the minimal risk cash lending clients introduce and, accordingly, tailors the program to meet the unique needs of these clients.

FICC, the only CCP platform in the US that clears triparty repo and debt transactions, has been seamlessly clearing general collateral financing (“GCF”) with more than 18 years of proven experience and established technology and bandwidth, as evidenced during the Lehman default in 2008. By expanding central clearing, we expect the following benefits to be achieved for clients and dealers:

- Generates access for clients to High Quality Liquid Assets (“HQLA”) like US Government securities on an overnight or term basis
- Provides capacity to cash lending clients while preserving existing lending opportunities
- Preserves trade origination and existing relationships, i.e., retains bilateral agreement
- Builds operational efficiencies due to use of triparty and reduces settlement risk
- Offers clients the ability to capture pricing differential between cleared and bilateral markets
- Novation of client trading activity to FICC provides dealers the opportunity for margin and capital efficiency and balance sheet netting

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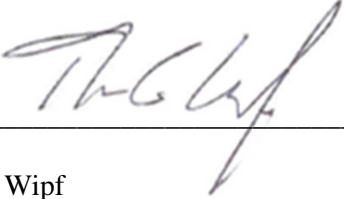
<sup>1</sup> Baklanova, B; Dalton. O; Tompaidis, S (2017). *Benefits and Risks of Central Clearing in the Repo Market*. Retrieved from <https://www.financialresearch.gov/>.

- Enhances the triparty repo market, which will result in increased market stability, reinforces benchmark rate volumes, and increases liquidity and price transparency

Broader use of central clearing for SFTs, via appropriately structured and risk-managed CCPs, offers the potential to benefit all participants and most importantly our clients in the SFT transaction chain. The FICC's Centrally Cleared Institutional Triparty offering is an important step forward in this process.

Sincerely,

Morgan Stanley & Co. LLC

By:  \_\_\_\_\_

Thomas Wipf  
Vice Chairman of the Institutional Securities Group