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By Electronic Mail (rule-comments@sec.gov)

Robert W. Errett
Deputy Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File No. SR-FICC-2018-001 (the “Rule Filing”) – Exchange Act Release No. 82876 (March 14, 2018) – Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change to the Required Fund Deposit Calculation in the Government Securities Division Rulebook, and

File No. SR-FICC-2018-801 (the “Advance Notice”) – Exchange Act Release No. 82820 (March 7, 2018) – Notice of Extension of Review Period of Advance Notice to Implement Changes to the Method of Calculating Netting Members’ Margin in the Government Securities Division Rulebook

Dear Mr. Errett:

Fixed Income Clearing Corporation (“FICC”)¹ appreciates the opportunity to respond to the comment letters submitted by Amherst Pierpont Securities LLC (“Amherst”)² and Ronin

¹ FICC is a clearing agency registered with the Commission pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”). FICC is comprised of two Divisions—the Government Securities Division (“GSD”) and the Mortgage-Backed Securities Division (“MBSD”). GSD provides central counterparty services to its customers with respect to the U.S. government securities market, and MBSD provides such services to the U.S. mortgage-backed securities market. FICC has been designated as a systemically important financial market utility (“SIFMU”) by the Financial Stability Oversight Counsel pursuant to Section 805 of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 in recognition of FICC’s critical role in the national financial infrastructure. FICC is a subsidiary of The Depository Trust & Clearing Corporation (“DTCC”), which is a user-owned, user-governed holding company for FICC, two other registered clearing agencies and SIFMUs regulated by the Commission, and a number of other companies that provide a variety of post-trade processing and information services. FICC and DTCC’s other registered clearing agencies provide critical infrastructure for the clearance and settlement of securities transactions in the U.S.

² Letter from Michael J. Santangelo, Chief Financial Officer, Amherst Pierpont Securities LLC to Brent J. Fields, Secretary, Securities and Exchange Commission (February 22, 2018) (the “Amherst Letter”).

Capital, LLC (“Ronin”)³ to the Securities and Exchange Commission (the “Commission”) with respect to the Rule Filing.⁴

I. Background

On January 12, 2018, FICC filed the Rule Filing and the Advance Notice⁵ (collectively, the “Filings”) with the Commission to amend the GSD Rulebook (the “GSD Rules”).⁶ The Filings propose changes to GSD’s method of calculating Netting Members’ margin (referred to in the GSD Rules as the Required Fund Deposit). As described in the Filings, FICC is proposing to (1) amend the method of calculating the VaR Charge component; (2) add a new component referred to as the “Blackout Period Exposure Adjustment”; (3) eliminate the Blackout Period Exposure Charge and the Coverage Charge components; (4) amend the Backtesting Charge component; and (5) amend the calculation for determining the Excess Capital Premium. In addition, FICC is proposing to provide transparency with respect to GSD’s existing authority to calculate and assess Intraday Supplemental Fund Deposit amounts. Collectively, the proposed changes address FICC’s concern that the current model-based volatility calculation may not calculate Required Fund Deposit amounts that achieve backtesting coverage at a 99% confidence level for all Netting Members.

As explained in the Rule Filing, FICC believes that the proposed changes are consistent with the Exchange Act, including but not limited to Rules 17Ad-22(e)(4) and (e)(6) each promulgated under the Exchange Act.⁷ Rule 17Ad-22(e)(4) requires FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to its participants and those exposures arising from its payment, clearing, and settlement processes.⁸ Rule 17Ad-22(e)(6) requires, in part, FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system.⁹

II. Impact of the Proposed VaR Methodology on the Required Fund Deposit

As discussed in the Filings, FICC has observed that GSD’s current VaR model has underperformed during periods of increased volatility. In an effort to address this observation, FICC has invested a significant amount of time in developing the proposed sensitivity approach,

³ Letter from Robert E. Pooler, Jr., Chief Financial Officer, Ronin Capital, LLC to Robert W. Errett, Deputy Secretary, Securities and Exchange Commission (February 22, 2018) (the “Ronin Letter”).

⁴ See Exchange Act Release No. 82588 (January 26, 2018), 83 FR 4687 (February 1, 2018) (SR-FICC-2018-001).

⁵ See Exchange Act Release No. 82779 (February 26, 2018), 83 FR 9055 (March 2, 2018) (SR-FICC-2018-801).

⁶ Capitalized terms used herein and not defined shall have the meaning assigned to such terms in the GSD Rules available at www.dtcc.com/legal/rules-and-procedures.aspx or the Rule Filing, available at <http://www.dtcc.com/legal/sec-rule-filings>.

⁷ 17 CFR 240.17Ad-22(e)(4) and (e)(6); See *supra* note 4, at 4688.

⁸ 17 CFR 240.17Ad-22(e)(4).

⁹ 17 CFR 240.17Ad-22(e)(6).

ensuring that the proposed model is validated and helping the membership understand the impact of the proposal on their Required Fund Deposit amounts.

The proposed sensitivity approach integrates observed risk factor changes over current and historical market conditions to more effectively respond to current market price moves that may not be adequately reflected in the current methodology for calculating the VaR Charge as supplemented by the Margin Proxy. Thus, the objective of FICC’s proposed approach is to establish a VaR methodology that would be calibrated to cover each Netting Member’s projected liquidation losses at a 99% confidence level.

With this in mind, FICC believes that Ronin’s assertion that the proposed sensitivity approach “simply requires increased margin from Netting Members” is inaccurate.¹⁰ FICC is proposing to eliminate the augmented volatility adjustment multiplier and Coverage Component because these components would have the effect of unnecessarily increasing Required Fund Deposit amounts. Additionally, FICC’s impact study reveals that the proposed methodology does not simply increase the Required Fund Deposit and the impacts vary based on Netting Members’ clearing portfolios and the market volatility that exists at that time. The following chart details the percentage of Netting Members and the associated impact to their average Required Fund Deposit amount as calculated under the proposed methodology during the period of May 1, 2017 through November 30, 2017:

Impact to Required Fund Deposit Amount	Percentage of Netting Members Impacted
0.0% or less	40%
2.5% or less	48%
5.0% or less	57%
7.5% or less	62%
10% or less	71%

III. Accuracy of FICC’s Assumed Three-Day Liquidation Period

FICC respectfully disagrees with Ronin’s statement that FICC’s backtesting practices “lack statistical rigor” and that the assumed three-day liquidation period is arbitrary.¹¹ FICC believes that its three-day liquidation period is an accurate assumption of the length of time that it would take to liquidate or hedge a portfolio given the volume and types of securities that can be found in a Netting Member’s portfolio at any given time. Furthermore, FICC validates its assumed three-day liquidation/hedge period, at least annually, through FICC’s simulated close-out,¹² which is

¹⁰ Ronin Letter, page 2.

¹¹ Id.

¹² FICC conducts a simulated close-out at least annually, where members of DTCC’s Board of Directors, FICC’s supervisors and certain stakeholders (such as representatives from Securities Investor Protection Corporation and the Federal Deposit Insurance Corporation) are invited to attend. The close-out simulations cover a wide range of hypothetical fact patterns that may represent extreme, but plausible, situations. Both

augmented with statistical and economic analyses to reflect potential hedging and liquidation costs of sample portfolios comprised of various sizes. These simulations demonstrate that while outright interest rate risk can be mitigated quickly through securities sales and hedges, idiosyncratic exposures (such as curve, basis, and mortgage-backed securities spread risks) cannot be mitigated quickly. FICC believes that idiosyncratic risk is present in large portfolios as well as many of GSD's smaller portfolios that have unique exposures that would require time to mitigate through sales and hedges.

FICC believes that its proposed Required Fund Deposit methodology would appropriately address the risks presented by Netting Members' clearing portfolios. Of note is that the proposed VaR methodology would be based on the risk factor attribution of the historical price moves of the securities that are cleared and settled through GSD. As Ronin acknowledges, FICC does not have full visibility into a Netting Member's overall position and exposure as reflected on such Netting Member's balance sheet.¹³ As a result, FICC cannot benefit from offsets of such positions in the event that a Netting Member defaults, thus FICC believes that it is appropriate to apply the VaR Charge to the respective exposures to FICC of its Netting Members.

The Ronin Letter expressed concern that a single large market move is triple counted for backtesting purposes.¹⁴ FICC needs to cover projected liquidation losses at a 99% confidence level for each Netting Member portfolio. Although a single market price shock will influence a 3-day portfolio price return, the mark-to-market calculations will vary daily based on each day's actual positions and Required Fund Deposit collections for each Netting Member. A daily backtesting calculation will measure those differences to assess the Required Fund Deposit adequacy and potential changes to closeout profit/loss exposure. Therefore, FICC believes that its backtesting calculation is appropriate.

IV. The Proposed Extended Look-Back Period Would Help to Capture Historical Market Conditions

As explained in the Rule Filing, FICC's proposal to extend the look-back period would help to ensure that the historical simulation contains a sufficient number of historical market conditions (including but not limited to stressed market conditions) that are necessary to calculate Required Fund Deposit amounts that achieve a 99% confidence level.¹⁵ Because VaR models typically rely on historical data to estimate the probability distribution of potential market prices, FICC believes that a longer look-back period will typically produce more stable VaR estimates that adequately reflect extreme market moves. Thus, FICC's proposed look-back period would help to ensure that the VaR Charge does not decrease as quickly during periods of low volatility nor increase as sharply during periods of a market crisis (as it would using a shorter look-back period).

the simulation results and the table-top reviews assess—and, where appropriate, improve upon—default management processes and procedures. Results are shared with the DTCC Board of Directors, the Board Risk Committee, FICC's supervisors and, as appropriate, relevant stakeholders.

¹³ Ronin Letter, page 3.

¹⁴ Id.

¹⁵ See supra note 4, at 4691.

V. FICC's Ongoing Commitment to Data Sharing and Cross-Margining

FICC agrees that data sharing and cross-margining would be beneficial to its membership. FICC has and will continue to explore data sharing and cross-margining opportunities. However, FICC also believes that the proposed changes provide necessary and appropriate risk mitigation that must be in place before FICC can fully evaluate potential offsetting opportunities that may be available to Netting Members.

VI. FICC's Ongoing Engagement of the GSD Membership

Amherst has requested that the Commission extend the review period for the Rule Filing.¹⁶ FICC believes that it has provided the membership with various opportunities to evaluate the proposed changes and the impact that such changes would have on members' clearing portfolios. FICC's membership engagement has included (1) customer forums that were held in August 2017, (2) the availability of individual impact studies in September 2017 and December 2017, and (3) parallel reporting that has been provided on a daily basis since December 18, 2017. In addition, FICC has made itself available to all Netting Members and has participated in individual meetings with Netting Members to discuss how the proposed changes would directly impact their portfolios.

FICC believes that the membership has been provided with sufficient time and information to assess the impact of the proposed rule changes. As a result, FICC respectfully requests that the Commission approve the Rule Filing because such approval would help to ensure that FICC is sufficiently covered by the Clearing Fund in the event of a Netting Member's default.

VII. Adequacy of Record

The General Instructions for Form 19b-4 (the "Form") prescribe the information to be included in the completed Form. With respect to the amount of information to be included, the self-regulatory organization is enjoined to "provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the [Exchange] Act and the applicable rules and regulations under the [Exchange] Act."¹⁷ FICC believes that the documents submitted in connection with this Rule Filing are sufficiently clear and comprehensible for the Commission to order the approval of the Rule Filing. The documents submitted include the Rule Filing itself, the Advance Notice, the narratives included with the Rule Filing and the Advance Notice, an impact study that shows the portfolio level VaR Charge under the proposed methodology for the period January 3, 2013 through December 30, 2016, an impact study that shows the aggregate Required Fund Deposit amount by Netting Member for the period May 1, 2017 through November 30, 2017, the GSD Initial Margin Model, this letter and the letters submitted by the commenters. This letter addresses a number of the concerns raised by the Ronin

¹⁶ Amherst Letter, page 1.

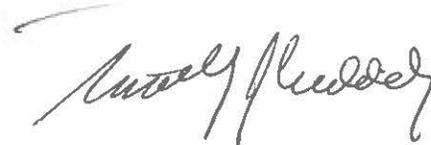
¹⁷ Form, available at <https://www.sec.gov/files/form19b-4.pdf>.

Letter and Amherst Letter; however, to the degree that their concerns are not addressed above, FICC believes that the record contains adequate responses with regard to such concerns.¹⁸

In addition, FICC believes that the Rule Filing is consistent with Section 17A(b)(3)(F)¹⁹ of the Exchange Act and the rules and regulations promulgated thereunder, including Rules 17Ad-22(e)(4) and (e)(6),²⁰ as described in the Rule Filing. FICC believes that the Rule Filing provides a basis for the Commission to make a determination on the merits. To the extent that the Commission requires any further information, FICC would be happy to supplement the record accordingly.

Should you have any questions, please do not hesitate to call me at [REDACTED].

Very truly yours,



Timothy J. Cuddihy
Managing Director
Financial Risk Management

¹⁸ For example, some of the concerns raised in the Ronin Letter relate to the anticompetitive burdens of the proposal that FICC has addressed in the Rule Filing.

¹⁹ 15 U.S.C. 78q-1(b)(3)(F).

²⁰ 17 CFR 240.17Ad-22(e)(4) and (e)(6).