Invested in America

Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

January 22, 2019

Re: Proposal of FICC to Expand Sponsoring Member Eligibility, SR-FICC-2018-013

Dear Mr. Fields:

The Securities Industry and Financial Markets Association ("SIFMA"),[1] through its Rates and Funding Committee, appreciates the opportunity to submit comments on the proposed rule change of Fixed Income Clearing Corporation ("FICC") to expand sponsoring member eligibility ("Proposal").[2] SIFMA supports the proposed rule changes and we believe these changes will contribute to and improve overall resiliency of the repurchase agreement market through improved liquidity and risk management provided by broader access to central clearing. This Proposal will help develop greater integrity in the repurchase agreement market by increasing capacity, transparency and safety and soundness. In connection with the Proposal, we offer several observations and comments.

Proposal

Change the Definition of Sponsoring Member

FICC has proposed to expand the definition of Sponsoring Member[3] to permit an additional category of FICC participants to act as Sponsoring Members. This new

[1] SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly 1 million employees, we advocate on legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.

[2] *See* SEC, Notice of Filing of Proposed Rule Change to Expand Sponsoring Member eligibility in the Government Securities Division Rulebook and Make other changes, Fed. Reg., Vol. 83, 67801, December 31, 2018 (available at https://www.federalregister.gov/documents/2018/12/31/2018-28376/self-regulatory-organizations-fixed-income-clearing-corporation-notice-of-filing-of-proposed-rule).

[3] All capitalized terms not otherwise defined are used as they appear in FICC's Government Securities Division Rulebook available at http://www.dtcc.com/legal/rules-and-procedures.

category (designated as Category 2 Sponsoring Members in the Proposal) would include FICC Netting Members (except for Inter-Dealer Broker Netting Members and Non-IDB Repo Brokers with respect to activity in their Segregated Repo Accounts) that are Tier 1 Netting Members. Members that are currently eligible to be Sponsoring Members ---Bank Netting Members that are "well-capitalized" (as defined by the FDIC's regulations[4]) and have at least $5 billion in equity capital---would continue to be eligible to be Sponsoring Members and would be designated as Category 1 Sponsoring Members.

In addition, FICC proposes to expand the definition of Sponsored Member Trades to permit Sponsored Members to submit trades with other Netting Members who are not the Sponsoring Member. Currently, Sponsored Member Trades include only transactions between a Sponsored Member and its Sponsoring Member.

As the Proposal outlines, we believe these changes will benefit the market in several significant ways. Importantly, more entities and more transactions will be able to take advantage of the clearing corporation and this will enhance liquidity and provide balance sheet benefits through the added efficiencies of clearing.[5] By expanding eligibility to become Sponsoring Members beyond the limited universe currently in place to all FICC Tier 1 members, the pool of potential market participants clearing through FICC will increase and the availability of market participants to actively participate in the market and provide liquidity will increase. In addition, the balance sheet benefits through netting will allow both Sponsoring Members and Sponsored Members to participate more actively in the repo market and add capacity for market participants in balance sheet friendly ways.

FICC also notes potential benefits in reducing the potential for market disruptive fire-sales upon the default of a market participant.[6] Specifically, if a Netting Member were to default, more transactions with the defaulting member would benefit from central hedging and liquidation in an orderly manner by FICC rather than by individual parties. These benefits would be significant and would particularly enhance the resiliency of the repo market during times of stress (i.e., the default of a market participant).

Finally, we believe that the overall framework of risk management outlined in the Proposal is appropriate and will ensure proper risk controls and integrity within the FICC environment. We would only caution that as FICC rolls out the expanded Sponsored

[4] 12 U.S.C. 1831o(a)

[5] As the Treasury Market Practices Group has noted transactions that are centrally cleared benefit from "the transfer of counterparty credit risk to the CCP through novation, multilateral netting of exposures, and other risk mitigation features like margining." *See TMPG Consultative Paper, White Paper on Clearing and Settlement in the Secondary Market for U.S. Treasury Securities,* available at https://www.newyorkfed.org/medialibrary/Microsites/tmpg/files/CS-DraftPaper-071218.pdf.

[6] The risk of fire sales in the repo market has long been a concern of policy makers and market participants. *See,* Begalle, Martin, McAndrews and McLaughlin, "The Risk of Fire Sales in the Tri-Party Repo Market", Staff Report, Federal Reserve Bank of New York, May 2013 at https://www.newyorkfed.org/research/staff_reports/sr616.html.

Member program, due consideration and evaluation be given to how the program interacts with and impacts other new products and requirements of FICC.

Related Proposals

Treatment of Inter-Dealer Broker Netting Members

The Proposal excludes from the new Sponsored Member definition Inter-Dealer Broker Netting Members and Non IDB Repo Brokers with respect to activity in their Segregated Repo Accounts. Given that such members are subject to a cap on their respective loss allocation obligations to FICC that does not apply to other Netting Members, we support this exclusion and believe that it reflects appropriately the role these entities play in the market.

Support of Secured Overnight Financing Rate ("SOFR")

SIFMA has long supported the development of SOFR as an appropriate substitute for LIBOR. We believe that the Proposal would further enhance the usefulness of SOFR as more transactions and more active market participants would be included in the data that FICC submits to the Federal Reserve Bank of New York. A broader base of activity will make SOFR more reflective of a deeper market and will thus further encourage its adoption as an alternative to LIBOR as the market transitions away from LIBOR over the next couple of years.

Conclusion

SIFMA very much appreciates the opportunity to comment on the Proposal. We believe that the enhanced liquidity that would result from the broader participation in the clearing corporation would contribute materially to the resiliency and integrity of this important market and provide specific benefits to market participants.

If necessary, we would be happy to discuss any of our comments with the SEC. Please feel free to reach out to Robert Toomey ([redacted] or [redacted]) at SIFMA if you would like to discuss further.

Sincerely,

Robert Toomey
Managing Director and Associate General Counsel
SIFMA