

January 30, 2019

Mr. Brent J. Fields  
Secretary  
Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090

**Re: Expanding Sponsored Clearing at the Fixed Income Clearing Corporation (File No. SR-FICC-2018-013)**

Citadel<sup>1</sup> appreciates the opportunity to provide comments to the Securities and Exchange Commission (the “Commission”) on the proposal by the Fixed Income Clearing Corporation (“FICC”) to expand sponsored clearing in its Government Securities Division (the “Proposal”).<sup>2</sup>

Sponsored clearing is designed to broaden access to the clearinghouse by allowing market participants that are not direct members of FICC to centrally clear through a “Sponsoring Member.” However, under FICC’s current sponsored clearing framework, only bank members that have at least \$5 billion in equity capital are permitted to act as a “Sponsoring Member” and a “Sponsoring Member” may only clear transactions for which it is the original executing counterparty. These limitations serve to reduce the benefits of sponsored clearing, as only a limited number of “Sponsoring Members” are currently available and a market participant using a “Sponsoring Member” will be constrained in its choice of executing counterparties (or must obtain multiple “Sponsoring Members” in order to successfully clear a portfolio of eligible government securities transactions entered into with various executing counterparties). We note that indirect clearing models offered by CCPs in other asset classes do not typically include such limitations.

The Proposal is designed to increase access to sponsored clearing by eliminating the limitations described above. Under the Proposal, non-bank FICC members would be permitted to act as a “Sponsoring Member” and a single “Sponsoring Member” would be able to clear all eligible government securities transactions for a given market participant, regardless of the original executing counterparty.<sup>3</sup>

We firmly support the Proposal, which is designed to expand access to central clearing for market participants transacting U.S. Treasuries, including bilateral U.S. Treasury repurchase agreements (“repos”). Enabling more market participants to access central clearing mitigates systemic risk in these critically important markets by replacing bilateral counterparty exposures with a simple model where all market participants face a CCP. In addition, increasing central

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<sup>1</sup> Citadel is a global financial firm built around world-class talent, sound risk management, and innovative market-leading technology. For more than a quarter of a century, Citadel’s hedge funds and capital markets platforms have delivered meaningful and measurable results to top-tier investors and clients around the world. Citadel operates in all major asset classes and financial markets, with offices in the world’s leading financial centers, including Chicago, New York, San Francisco, Boston, London, Hong Kong, and Shanghai.

<sup>2</sup> 83 FR 67801 (Dec. 31, 2018).

<sup>3</sup> *Id.*

clearing can improve trading conditions for market participants, as the associated netting benefits can help to alleviate dealer balance sheet constraints that negatively impact liquidity. For example, there have been observed trends of constrained availability, increased volatility, and increased costs of U.S. Treasury repos. Increasing access to central clearing can help to reverse these trends and ensure a well-functioning repo market, which benefits market participants, the official sector, and the overall U.S. economy.

We commend FICC for taking steps to expand access to central clearing for market participants transacting U.S. Treasuries, while continuing to focus on maintaining robust risk management and default management frameworks. In our view, the Commission should support this initiative, and actively monitor market-wide clearing rates in order to identify any other impediments that may be hindering the market's voluntary transition to central clearing.

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We appreciate the opportunity to provide comments to the Commission on the Proposal.

Respectfully,

/s/ Stephen John Berger

Managing Director, Government & Regulatory Policy