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By Electronic Mail ([rule-comments@sec.gov](mailto:rule-comments@sec.gov))

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

**Re: File Nos. SR-FICC-2018-013 and SR-FICC-2018-802**

Dear Mr. Fields:

Fixed Income Clearing Corporation (“FICC”)<sup>1</sup> appreciates the opportunity to respond to the concerns raised in comment letters submitted by the Independent Dealer and Trader Association (“IDTA”)<sup>2</sup> and Ronin Capital LLC (“Ronin”)<sup>3</sup> to the Commission with respect to a proposed rule change filed by FICC pursuant to Section 19(b)(1) of the Exchange Act<sup>4</sup> (the “Rule Filing”)<sup>5</sup> and the advance notice filed by FICC pursuant to Section 806(e)(1) of Title VIII of Dodd-Frank<sup>6</sup> and Rule 19b-4(n)(1)(i)

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<sup>1</sup> FICC is a clearing agency registered with the U.S. Securities and Exchange Commission (“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 (“Dodd-Frank”) 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.

<sup>2</sup> Letter from James Tabacchi, Chairman, Independent Dealer and Trade Association to Brent J. Fields, Secretary, U.S. Securities and Exchange Commission (January 22, 2019) (“IDTA Letter”).

<sup>3</sup> Letter from Robert E. Pooler, Jr., Chief Financial Officer, Ronin Capital LLC to Brent J. Fields, Secretary, U.S. Securities and Exchange Commission (January 18, 2019) (“Ronin Letter”).

<sup>4</sup> 15 U.S.C. 78s(b)(1).

<sup>5</sup> Securities Exchange Act Release No. 84951 (December 21, 2018), 83 FR 67801 (December 31, 2018) (SR-FICC-2018-013) (“Notice of Rule Filing”).

<sup>6</sup> 12 U.S.C. 5465(e)(1).

under the Exchange Act<sup>7</sup> (the “Advance Notice”<sup>8</sup> and together with the Rule Filing, the “Filings”).

FICC would like to note that Ronin has expressed support for the proposal in its letter, stating that “Ronin urges the U.S. Securities and Exchange Commission to approve this rule modification.”<sup>9</sup> Moreover, the Securities Industry and Financial Markets Association (“SIFMA”) and Citadel (“Citadel”) have also expressed their support for the proposal and have submitted comment letters stating that the proposal will benefit the market.<sup>10</sup>

## I. Background

On December 13, 2018, FICC filed with the Commission a proposed rule change and advance notice. The Filings consist of amendments to the GSD Rulebook (“Rules”)<sup>11</sup> that would (i) allow a broader group of Netting Members to participate in FICC as Sponsoring Members and (ii) allow a Sponsoring Member to establish a Sponsoring Member Omnibus Account that may contain transactions between a Sponsored Member and a Netting Member other than the Sponsoring Member, which Sponsoring Member Omnibus Account could be in addition to or in lieu of a Sponsoring Member Omnibus Account in which only transactions between a Sponsored Member and its Sponsoring Member would be permitted.<sup>12</sup>

FICC believes that the Rule Filing is consistent with Section 17A(b)(3)(F) of the Exchange Act, which requires, in part, that the Rules be designed to (i) “remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions, and, in general, to protect investors and the public interest,”<sup>13</sup> (ii) “assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible,”<sup>14</sup> and (iii) “promote the prompt and accurate clearance and settlement of securities transactions.”<sup>15</sup>

As stated in the Rule Filing, FICC believes that the proposal is designed to remove certain impediments to the clearance and settlement of securities transactions, including the risk of liquidity drain, fire sale risk, and settlement and operational risks as it would enable a greater number of securities transactions to be cleared and settled by a central counterparty. Specifically, FICC believes that the

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<sup>7</sup> 17 CFR 240.19b-4(n)(1)(i).

<sup>8</sup> SR-FICC-2018-802.

<sup>9</sup> Ronin Letter at 1.

<sup>10</sup> Letter from Robert Toomey, Managing Director and Associate General Counsel, SIFMA to Brent J. Fields, Secretary, Securities and Exchange Commission (January 22, 2019) (“SIFMA Letter”) at 1; Letter from Stephen John Berger, Managing Director, Government & Regulatory Policy, Citadel to Brent J. Fields, Secretary, Securities and Exchange Commission (January 30, 2019) (“Citadel Letter”) at 1–2.

<sup>11</sup> Capitalized terms not defined herein are defined in the Rules, available at <http://www.dtcc.com/legal/rules-and-procedures>.

<sup>12</sup> FICC is also proposing to make certain conforming and technical changes in Rules 1 and 3A.

<sup>13</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>14</sup> Id.

<sup>15</sup> Id.

clearance and settlement of securities transactions through a central counterparty would help to safeguard the U.S. financial market by lowering the risk of a liquidity drain through the central counterparty's guaranty of completion of settlement of centrally cleared securities transactions, and would protect against fire sale risk through the central counterparty's ability to centralize and control the hedging and liquidation of a failed counterparty's portfolio.<sup>16</sup> FICC also believes that having more securities transactions clear and settle through a central counterparty would decrease the settlement and operational risks that market participants would otherwise face to the extent they were required to clear and settle their securities transactions bilaterally because those securities transactions would be eligible to be net settled and subject to guaranteed settlement, novation, and independent risk management by the central counterparty.<sup>17</sup>

As further stated in the Rule Filing, FICC believes that the risk management that would apply to the proposal would allow FICC to assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible. Specifically, as provided under the current Rules and described in the Rule Filing, all Sponsoring Members would continue to be subject to an approval process that is separate from their original Netting Member applications, ongoing credit surveillance in their capacity as Sponsoring Members, as well as the calculation of Required Fund Deposits with respect to their Sponsoring Member Omnibus Accounts whereby no offsets for netting of positions as between different Sponsored Members are permitted and the higher of the Required Fund Deposit calculation as of the beginning of the current Business Day and intraday on the current Business Day is applied by FICC.<sup>18</sup>

In addition, Category 2 Sponsoring Member applicants would be subject to the same financial requirements as those that apply to them with respect to their respective Netting Member category under Section 4(b) of Rule 2A, but FICC would reserve the right to impose greater financial requirements on a Category 2 Sponsoring Member applicant based upon the level of the anticipated positions and obligations of such applicant, the anticipated risk associated with the volume and types of transactions such applicant proposes to process through FICC as a Category 2 Sponsoring Member, and the overall financial condition of such applicant.<sup>19</sup> An activity limit would also be imposed on a Category 2 Sponsoring Member's Sponsored Member activity so that such Sponsoring Member would only be permitted to novate new Sponsored Member activity to FICC to the extent its Aggregate VaR Charges<sup>20</sup> do not exceed its Netting Member Capital, unless otherwise determined by FICC in order to promote orderly settlement, which would include, but not be limited to, circumstances in which the novation of such activity would have a risk-reducing impact on the Category 2 Sponsoring Member's overall FICC cleared portfolio.<sup>21</sup>

Moreover, FICC would reserve the right to require each Sponsoring Member, or any Netting Member applicant to become such, to furnish to FICC such adequate assurances of its financial responsibility and operational capability within the meaning of Section 7 of Rule 3 as FICC may at any time or from time to time deem necessary or advisable in order to protect FICC and its members, to

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<sup>16</sup> Notice of Rule Filing at 67806.

<sup>17</sup> Id.

<sup>18</sup> Id.

<sup>19</sup> Id.

<sup>20</sup> As used in the Rule Filing, "Aggregate VaR Charges" means, with respect to a Category 2 Sponsoring Member, the sum of the VaR Charges of its Sponsoring Member Omnibus Account(s) and its Netting System accounts. Id. at 67803.

<sup>21</sup> Id. at 67806.

safeguard securities and funds in the custody or control of FICC and for which FICC is responsible, or to promote the prompt and accurate clearance and settlement of securities transactions.<sup>22</sup>

## II. Concerns Regarding FICC’s Evaluation of Category 2 Sponsoring Member Applicants

The Rule Filing would allow a broader group of Netting Members to participate in FICC as Sponsoring Members. There would be two categories of Sponsoring Members (Category 1 Sponsoring Members and Category 2 Sponsoring Members). Category 1 Sponsoring Members would include currently eligible Bank Netting Members that are “well-capitalized” (as defined by the Federal Deposit Insurance Corporation’s applicable regulations)<sup>23</sup> and have at least \$5 billion in equity capital. Category 2 Sponsoring Members would include Netting Members that are Tier One Netting Members, except for Inter-Dealer Broker Netting Members and Non-IDB Repo Brokers with respect to activity in their Segregated Repo Accounts. As such, Category 2 Sponsoring Member applicants could include, for example, Dealer Netting Members, Futures Commission Merchant Netting Members, and Foreign Netting Members.

IDTA and Ronin raise certain concerns regarding how FICC would evaluate Category 2 Sponsoring Member applicants, each of which FICC rebuts below:

- A. IDTA claims that FICC’s explanation of the factors that would be used to evaluate an applicant who seeks to become a Category 2 Sponsoring Member and the criteria that would be used by FICC to determine whether and what additional financial requirements and assurances may be imposed on a Category 2 Sponsoring Member “provide little guidance.”<sup>24</sup> IDTA further claims that “the lack of specificity in the proposed standards presents risks that standards will be imposed unequally among Netting Members.”<sup>25</sup> Ronin raises a similar concern by stating “it is unclear how qualitative standards will be applied in terms of accepting new Category 2 Sponsoring Members” and that “unspecified requirements could be applied arbitrarily.”<sup>26</sup> IDTA further claims “that the uncertainty in what additional financial requirements and assurances may be mandated on a Category 2 Sponsoring Member could discourage applicants, particularly if a Netting Member could not forecast or plan around these additional assurances.”<sup>27</sup>

As stated in the Rule Filing, the minimum financial requirements applicable to Netting Member applicants to become Category 2 Sponsoring Members would be the same as those that apply to them with respect to their respective Netting Member category under Section 4(b) of Rule 2A.<sup>28</sup> However, since a Category 2 Sponsoring Member may have substantially less capital than a Category 1 Sponsoring Member, FICC may impose

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<sup>22</sup> Id.

<sup>23</sup> 12 U.S.C. 1831o(a).

<sup>24</sup> IDTA Letter at 3.

<sup>25</sup> Id.

<sup>26</sup> Ronin Letter at 5.

<sup>27</sup> IDTA Letter at 3.

<sup>28</sup> Notice of Rule Filing at 67803.



financial requirements on an applicant to become a Category 2 Sponsoring Member that are greater than the financial requirements applicable to such applicant in its capacity as a Netting Member under Section 4(b) of Rule 2A.<sup>29</sup> As also stated in the Rule Filing, FICC's determination as to whether to impose such increased financial requirements on a Category 2 Sponsoring Member applicant would be based upon the level of the anticipated positions and obligations of such applicant, the anticipated risk associated with the volume and types of transactions such applicant proposes to process through FICC as a Category 2 Sponsoring Member, and the overall financial condition of such applicant.<sup>30</sup> FICC also proposes to reserve the right to require each Sponsoring Member applicant to furnish to FICC such adequate assurances of its financial responsibility and operational capability within the meaning of Section 7 of Rule 3 as FICC may at any time or from time to time deem necessary or advisable in order to protect FICC and its members, to safeguard securities and funds in the custody or control of FICC and for which FICC is responsible, or to promote the prompt and accurate clearance and settlement of securities transactions. Such a determination by FICC to impose adequate assurances on a Sponsoring Member applicant would also be subject to the approval of the FICC Board of Directors.<sup>31</sup>

FICC believes it is appropriate to evaluate all Category 2 Sponsoring Member applicants on a case-by-case basis, as it does Netting Member applicants. Specifically, FICC believes a case-by-case analysis of each Category 2 Sponsoring Member applicant according to the factors described in the preceding paragraph is appropriate given that applicants can vary widely in terms of their organizational structures, capitalizations, and the nature and volume of activity they are interested in centrally clearing through FICC. If FICC were instead to apply a blunt set of criteria *ex ante* to its evaluation of every Category 2 Sponsoring Member applicant as IDTA suggests would be preferable,<sup>32</sup> such an approach could have the adverse consequences of not only forcing FICC to deny the applications of certain Category 2 Sponsoring Members that FICC may have otherwise considered approving were FICC to take a more holistic approach to its review, but it could also put FICC in a position of having to approve a Category 2 Sponsoring Member just because it satisfies the pre-established criteria even though it otherwise presents a creditworthiness concern. As Ronin itself points out: "history has shown that large amounts of capital are not necessarily correlated with safety."<sup>33</sup>

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<sup>29</sup> Id.

<sup>30</sup> Id.

<sup>31</sup> Id.

<sup>32</sup> Specifically, IDTA claims that FICC does not require as much flexibility in terms of its evaluation of Category 2 Sponsoring Member applicants as it does its Netting Member applicants because "the Sponsored Member program is a discrete, FICC-sponsored program that can easily and readily define its contours." IDTA Letter at 3. What IDTA fails to acknowledge is that under Rule 3A, a Sponsoring Member is permitted to intermediate on behalf of its Sponsored Member clients the full suite of delivery-versus-payment transactions in FICC-eligible collateral, including repos and reverse repos up to 2 years in duration as well as outright purchases and sales in GSD eligible collateral. Rule 3A, Section 5, supra note 11. As such, FICC has no basis for conducting any less nuanced a review of a Category 2 Sponsoring Member applicant than it would a Netting Member applicant proposing to do the same suite of activity for its own proprietary account.

<sup>33</sup> Ronin Letter at 5.

FICC further disputes IDTA's and Ronin's claims that its case-by-case approach to the evaluation of Category 2 Sponsoring Members means that applicants are at risk of being treated unequally by FICC. As the Rule Filing describes, every Sponsoring Member applicant is subject to review and approval not only by FICC management but also by the FICC Board of Directors.<sup>34</sup> This governance process is designed to ensure that requirements are imposed equitably and fairly by FICC across all Sponsoring Member applicants.

- B. IDTA also claims that the GSD Rules do not seem to allow a Netting Member whose application is approved to appeal FICC's decision to impose additional financial requirements and assurances on it.<sup>35</sup>

FICC notes that any conditions imposed on a Category 2 Sponsoring Member applicant would have to be reasonably related to the risks presented by the applicant (see the description in our response in Section II.A above.) Moreover, the ability to impose conditions on a member applicant without triggering Board appeal rights is a common right amongst central counterparties.<sup>36</sup> While the IDTA is correct that a Sponsoring Member is not entitled to a hearing before the FICC Board of Directors if its application is approved with conditions that it finds unacceptable, FICC notes that such approval in no way obligates such applicant to activate its Sponsoring Member Omnibus Account nor does it preclude the applicant from withdrawing its application and applying again at a later date when its circumstances have changed. Moreover, it is important to note that FICC would in no way restrict the ability of such an applicant to transact with institutional firms (that may otherwise be its Sponsored Member clients if it chose to activate its Sponsoring Member status) outside of GSD.

### **III. Concerns Regarding FICC's Operation and Risk Management of the Sponsoring Member Omnibus Account**

IDTA claims that there are inconsistencies in FICC's description regarding the operation of the Sponsoring Member Omnibus Account, and also claims that it is unclear how this process will work at a practical level.<sup>37</sup> Similarly, Ronin raises concern regarding the fact that FICC assigns a separate VaR Charge for each Sponsored Member's activity represented in a Sponsoring Member Omnibus Account.<sup>38</sup> FICC rebuts each of these concerns below.

- A. IDTA claims that FICC should reconcile the following statements in the Rule Filing: (1) the Required Fund Deposit in a Sponsoring Member Omnibus Account is presently calculated using the total activity of each Sponsored Member without any netting between

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<sup>34</sup> Notice of Rule Filing at 67801.

<sup>35</sup> IDTA Letter at 3.

<sup>36</sup> See, e.g., ICE Clear Credit Rules 201–202 available at <https://www.theice.com/clear-credit/regulation>; OCC By-Laws Article V, Sections 2–3 available at <https://www.theocc.com/about/publications/bylaws.jsp>.

<sup>37</sup> Id.

<sup>38</sup> See Ronin Letter at 6.

Sponsored Members' activity within a single Sponsoring Member Omnibus Account,<sup>39</sup> and that (2) the calculation of the Required Fund Deposit for a Sponsoring Member Omnibus Account would be inclusive of all transactions between a Sponsored Member and a Netting Member other than the Sponsoring Member, as well as transactions between a Sponsored Member and the Sponsoring Member.<sup>40</sup>

These two statements in the Rule Filing are not inconsistent. As the Rule Filing states, for purposes of calculating the Unadjusted GSD Margin Portfolio Amount for a Sponsoring Member Omnibus Account, each Sponsored Member's activity is assigned a separate VaR Charge, and, as such, the Unadjusted GSD Margin Portfolio Amount for the Sponsoring Member Omnibus Account is not reduced by any netting of positions as between different Sponsored Members within that Sponsoring Member Omnibus Account.<sup>41</sup>

That said, transactions of a Sponsored Member submitted to FICC between itself and its Sponsoring Member and between itself and another Netting Member (which would be permitted under the proposal to the extent the Sponsoring Member elects to establish a Sponsoring Member Omnibus Account to which transactions between the Sponsored Member and other Netting Members could be submitted),<sup>42</sup> would be included for purposes of calculating the separate VaR Charge associated with such Sponsored Member's activity within the Sponsoring Member Omnibus Account.

- B. IDTA claims that FICC should clarify "how the Sponsoring Member Omnibus Account could potentially contain activity between Sponsored Members and Netting Members other than the Sponsoring Members."<sup>43</sup>

As stated above and in the Rule Filing, as part of the proposal, FICC would allow a Sponsoring Member to establish a Sponsoring Member Omnibus Account that could contain activity between Sponsored Members and Netting Members other than the Sponsoring Members.<sup>44</sup> This Sponsoring Member Omnibus Account could be in addition to or in lieu of the Sponsoring Member Omnibus Account in which only transactions between a Sponsored Member and its Sponsoring Member would be permitted.<sup>45</sup>

- C. Ronin questions why FICC needs to assign a separate VaR Charge for the activity of each Sponsored Member in a Sponsoring Member Omnibus Account, claiming that such positions are netted from a balance sheet standpoint.<sup>46</sup>

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<sup>39</sup> IDTA Letter at 3-4.

<sup>40</sup> Id. at 4.

<sup>41</sup> Notice of Rule Filing at 67802; Rule 3A, Section 10(c), supra note 11.

<sup>42</sup> Notice of Rule Filing at 67801 and 67804.

<sup>43</sup> IDTA Letter at 4.

<sup>44</sup> Notice of Rule Filing at 67801 and 67804.

<sup>45</sup> Id. at 67804.

<sup>46</sup> See Ronin Letter at 6.

FICC believes that this claim reflects a misunderstanding of the Sponsoring Member/Sponsored Member Program. To the extent a Sponsoring Member has offsetting positions at FICC *in its proprietary Netting Account* reflecting a transaction between itself and a Sponsored Member client on the one hand and an offsetting transaction between itself and another Netting Member on the other hand, then the margin offset as well as balance sheet netting may be available to the Sponsoring Member with respect to its offsetting positions *in that proprietary Netting Account*.<sup>47</sup> The Sponsoring Member Omnibus Account, on the other hand, reflects the FICC-cleared positions of the Sponsored Members themselves, not of the Sponsoring Member. In light of the fact that FICC novates and guarantees the settlement of each Sponsored Member's position in the Sponsoring Member Omnibus Account,<sup>48</sup> FICC believes it is appropriate to risk manage and assign a separate VaR Charge to the activity of each such Sponsored Member.

#### IV. Other Concerns Regarding Impact of Proposed Rule Change

IDTA and Ronin raise certain other concerns regarding the proposal, each of which FICC rebuts below:

- A. IDTA claims that certain statements regarding the benefits of the proposal to the U.S. financial market are conclusory, unproven and unsupported by data. IDTA also claims that it is conclusory to state that the proposal will help “safeguard the U.S. financial market by lowering the risk of liquidity drain, protecting against fire sale risk, and decreasing settlement and operational risk.”<sup>49</sup>

FICC disagrees with IDTA's claims that the benefits are conclusory statements that are unproven and unsupported by data. The Office of Financial Research's U.S. Money Market Fund Monitor (the “Monitor”) shows U.S. money market funds (“MMFs”) activity in the repurchase agreement (repo) market.<sup>50</sup> The Monitor provides details by repo type (i.e., treasury repo, government agency repo and other repos) as well as additional details, including the counterparties. The Monitor shows that, as of December 31, 2018, FICC was the largest repo counterparty to MMFs in their capacity as Sponsored Members, representing a total of \$136.9 billion in treasury repo; whereas, the Monitor reports that MMFs had \$0 of treasury repo activity with FICC as of May 31, 2017.<sup>51</sup> This exponential growth in incremental cash investment from MMFs in FICC through the Sponsoring Member/Sponsored Member Program proves the value of the program to them in terms of their ability to increase their lending capacity and, in turn, their income.

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<sup>47</sup> Sponsoring Members interested in balance sheet netting relief should discuss this matter with their accounting experts.

<sup>48</sup> See Rule 3A, Section 7(d), *supra* note 11.

<sup>49</sup> IDTA Letter at 4.

<sup>50</sup> Office of Financial Research, *U.S. MMFs' investments in the repo market* available at <https://www.financialresearch.gov/money-market-funds/us-mmfs-investments-in-the-repo-market/>.

<sup>51</sup> Id.



As noted above, SIFMA and Citadel support the proposal and have submitted comment letters stating that the proposal will benefit the market. SIFMA notes that “more entities and 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.”<sup>52</sup> Similarly, Citadel points out that “increasing central clearing can improve trading conditions for market participants, as the associated netting benefits can help alleviate dealer balance sheet constraints that negatively impact liquidity.”<sup>53</sup> In addition, SIFMA states that “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” by expanding eligibility to become a Sponsoring Member.<sup>54</sup>

Citadel also points out the systemic risk benefits of the proposal and notes that “[e]nabling 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.”<sup>55</sup> SIFMA similarly points out the benefits of the proposal in terms of reducing the potential for market disruptive fire-sales and notes that “[t]hese benefits would be significant and would particularly enhance the resiliency of the repo market during the times of stress (i.e., the default of a market participant).”<sup>56</sup>

In addition, Ronin points out certain benefits of the proposal and notes that “[i]f approved, this rule change would allow a broader group of Netting Members to participate as Sponsoring Members. This should increase the number of Sponsored Members participating in centralized clearing and ultimately increase the size and number of transactions that are centrally cleared. Aside from the normal benefits attributed to centralized clearing, an increase in volume over time should help reduce costs. This cost reduction might result in making central clearing more affordable for a broader diversity of market participants.”<sup>57</sup>

- B. IDTA further claims that while it is true that expanding the types of Netting Members that are eligible to participate in FICC as Sponsoring Members could increase the number of Sponsoring Members and, in turn, the number of Sponsored Member Trades that would be cleared by FICC, “this ignores the role that the Sponsored Member program could have in increasing concentration risk to FICC.”<sup>58</sup>

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<sup>52</sup> SIFMA Letter at 2.

<sup>53</sup> Citadel Letter at 1–2.

<sup>54</sup> SIFMA Letter at 2.

<sup>55</sup> Citadel Letter at 1.

<sup>56</sup> SIFMA Letter at 2.

<sup>57</sup> Ronin Letter at 5.

<sup>58</sup> IDTA Letter at 4.

As IDTA acknowledges, expanding the types of Netting Members that are eligible to participate in FICC as Sponsoring Members could increase the number of Sponsoring Members.<sup>59</sup> FICC believes that the expansion of Netting Members that would be eligible to become Sponsoring Members under this proposal could diversify the pool of Sponsoring Members, and thereby, reduce the concentration risk to FICC.

- C. Ronin also notes its concern regarding the fact that “Sponsored Membership might increase the CCLF responsibilities of other Netting Members if the liquidity needs of the largest Netting Members grow substantially” and that “CCLF obligations are also more expensive for Netting Members that are not affiliated with banks.”<sup>60</sup> To this concern, FICC notes that to the extent the CCLF were to potentially increase as a result of Sponsored Member activity, the CCLF is designed so that requirements are in proportion to the liquidity exposure that each Netting Member presents to GSD. Moreover, the two-tiered structure of CCLF means that Individual Supplemental Amounts would only be applied to approximately 20% of the Netting Members that place the largest liquidity needs on GSD and not to the majority of the Netting Members. Therefore, even if there was an increase in the “Cover 1” liquidity need arising from Sponsored Member activity, the relevant Sponsoring Members would commensurately be subject to larger CCLF requirements as well as Individual Supplemental Amounts.<sup>61</sup>
- D. IDTA also claims that “[i]f the program succeeds in reducing the balance sheets for Netting Members that participate in the Sponsored Member program, while such Netting Members maintain their existing degrees of leverage, it could be said that the risk to other Netting Members has in fact increased.”<sup>62</sup> In addition, IDTA claims that “the risk a Sponsoring Member poses to FICC may be greater than if the activity was transacted through another Netting Member that is not a Sponsoring Member” because “if a Sponsored Member fails on its obligation to receive securities, the Sponsoring Member assumes responsibility for the trades in the Sponsoring Member Omnibus Account.”<sup>63</sup>

While it is possible that the balance sheet and capital efficiencies of trading through FICC may increase Sponsoring Members’ capacity to transact, the same can be said for any Netting Member whose ability to transact outside of a central counterparty is subject to balance sheet and capital constraints. In contrast, however, those Netting Members are margined on a net basis by FICC, as opposed to Sponsoring Members whose Sponsored Member activity is margined by FICC on a gross basis as described above.

Similarly, IDTA’s claim that the failure of a Sponsored Member on its obligation to receive securities intermediated by a Sponsoring Member is somehow riskier to FICC than the same activity intermediated by a Netting Member that is not a Sponsoring Member is

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<sup>59</sup> IDTA Letter at 4.

<sup>60</sup> Ronin Letter at 6.

<sup>61</sup> See Rule 22A, Sections 2a(b)(iii) and (iv), supra note 11.

<sup>62</sup> IDTA Letter at 4.

<sup>63</sup> Id. at 4-5.

unfounded. In either circumstance, FICC is going to look to either the Sponsoring Member (in its guarantor capacity) or to the Netting Member (in its proprietary capacity) to perform to FICC on this obligation. In fact, FICC believes having this activity transacted through FICC via the Sponsoring Member-Sponsored Member relationship is actually less risky than were it transacted by a Netting Member that is not a Sponsoring Member because Sponsored Member activity is margined by FICC on a gross basis, as opposed to Netting Members' proprietary activity, which is margined by FICC on a net basis, as described above.

- E. Ronin further mentions concern regarding the risk of "sterilized" market liquidity to the extent Sponsoring Members "match up sponsored cash and collateral providers internally to take advantage of balance sheet relief."<sup>64</sup>

To this concern, FICC notes that by permitting Sponsoring Members to establish Sponsoring Member Omnibus Accounts that may contain transactions between a Sponsored Member and a Netting Member other than the Sponsoring Member, FICC has made every effort in the proposal to maximize the potential counterparties a Sponsored Member could have in clearing. Beyond that, it will be up to market forces to dictate how and with whom Sponsored Members choose to transact in FICC.

- F. IDTA also claims that certain statements in the Rule Filing with respect to particular Netting Members (e.g., the opportunity for Sponsoring Members to intermediate their Sponsored Members' securities transactions in a more capital efficient manner through FICC may allow such Sponsoring Members to engage in a greater number of securities transactions, thereby potentially increasing their Sponsored Members' opportunity to lend and, in turn, their income) do not address the program's benefits to FICC or Netting Members, generally.<sup>65</sup>

FICC believes that FICC's responses in Sections IV.A and IV.D above have addressed IDTA's claim here.

- G. IDTA claims that because the actual effects of the proposal are unknown, FICC should provide transparency to all Netting Members of the impact of the Sponsoring Member/Sponsored Member Program, by increasing the availability of anonymized data that shows the benefits of the Sponsoring Member/Sponsored Member Program; distributing periodic reports on the concentration of the trade volumes among Sponsoring Members; and adopting a rubric for the ongoing monitoring of the Sponsoring Members' trade activity, including the frequency of reporting and the types of metrics used to evaluate risk.<sup>66</sup>

FICC has addressed IDTA's claims questioning the benefits of the proposal (see Section IV.A above). It is not possible, given the current number of Sponsoring Members, for FICC to publish even anonymized data on their activity without violating Rule 29. This

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<sup>64</sup> Ronin Letter at 6.

<sup>65</sup> IDTA Letter at 5.

<sup>66</sup> Id. at 5.

rule prohibits FICC from releasing Clearing Data that would allow disclosure of the Clearing Data of inappropriately arranged groups of Members in an easily discernible format.<sup>67</sup> FICC will not publish data that would compromise the confidential trading positions of its Members as it would be a violation of Rule 29.

FICC believes that the expansion of Netting Members that would be eligible to become Sponsoring Members under this proposal could expand the pool of Sponsoring Members, so that, eventually, a broad enough pool of Sponsoring Members may exist whereby anonymized data could be published by FICC without compromising the confidential trading positions of individual Sponsoring Members.

SIFMA also notes that they believe that the proposal “would further enhance the usefulness of [Secured Overnight Financing Rate (“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.”<sup>68</sup>

With respect to IDTA’s claims regarding monitoring, as the Rule Filing states, once a Sponsoring Member is approved by the Board of Directors, it is subject to ongoing credit surveillance and may be placed on the Watch List and/or may be subject to enhanced surveillance based on relevant factors as set forth in Rule 3, as FICC deems necessary to protect FICC and its Members.<sup>69</sup> Furthermore, as stated in the Rule Filing, in addition to reserving the right of FICC to impose financial requirements on a Category 2 Sponsoring Member that are greater than the financial requirements applicable to it in its capacity as a Netting Member under Section 4(b) of Rule 2A, the proposed rule change would also impose an activity limit on a Category 2 Sponsoring Member’s Sponsored Member activity so that such Sponsoring Member would only be permitted to novate new Sponsored Member activity to FICC to the extent its Aggregate VaR Charges do not exceed its Netting Member Capital. The ratio of a Category 2 Sponsoring Member’s Aggregate VaR Charges to its Netting Member Capital would be calculated by FICC on at least an hourly basis for monitoring purposes. To the extent a Category 2 Sponsoring Member’s Aggregate VaR Charges exceed its Netting Member Capital, it would not be permitted to submit new Sponsored Member activity to FICC until its Netting Member Capital equals or exceeds its Aggregate VaR Charges, unless otherwise determined by FICC in order to promote orderly settlement, which would include, but not be limited to, circumstances in which the novation of such activity would have a risk-reducing impact on the Category 2 Sponsoring Member’s overall FICC-cleared portfolio.<sup>70</sup>

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<sup>67</sup> Rule 29, Section (b), supra note 11.

<sup>68</sup> SIFMA Letter at 3.

<sup>69</sup> Notice of Rule Filing at 67802; Rule 3, Section 12, supra note 11.

<sup>70</sup> Notice of Rule Filing at 67803.


**V. Basis for Approval**

For the reasons described above, there is a sound basis for the Commission to approve the proposed rule change as consistent with the purposes of the Exchange Act. Since the Securities Acts Amendments of 1975 and reaffirmed by Congress in Dodd-Frank, Congress has encouraged greater use of centralized clearing. SIFMA supports the proposal and believes “these changes will contribute to and improve overall resiliency of the repurchase market through improved liquidity and risk management provided by broader access to central clearing.”<sup>71</sup> SIFMA also states that the proposal “will help develop greater integrity in the repurchase agreement market by increasing capacity, transparency and safety and soundness.”<sup>72</sup> Citadel also supports the proposal and notes that increasing access to central clearing can help “ensure a well-functioning repo market, which benefits market participants, the official sector, and the overall economy.”<sup>73</sup>

The proposed changes to (i) allow a broader group of Netting Members to participate in FICC as Sponsoring Members and (ii) allow a Sponsoring Member to establish a Sponsoring Member Omnibus Account that may contain transactions between a Sponsored Member and Netting Member, which Sponsoring Member Omnibus Account could be in addition to or in lieu of a Sponsoring Member Omnibus Account in which only transactions between a Sponsored Member and its Sponsoring Member would be permitted, expands access to those benefits while building on existing risk safeguards at FICC. While there may be different marketplace consequences of this expansion, those consequences do not constitute an unfair burden on competition or otherwise warrant disapproval under the Exchange Act. Accordingly, we urge the Commission to promptly approve the proposed rule change so the system as a whole and Category 2 Sponsoring Members in particular can obtain access to the universally acknowledged benefits of centralized clearing.

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

Very truly yours,



Murray Pozmanter  
Managing Director  
Head of Clearing Agency Services

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<sup>71</sup> SIFMA Letter at 1.

<sup>72</sup> Id.

<sup>73</sup> Citadel Letter at 2.