Exhibit 2

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Messrs. Pozmanter and Cuddihy:

Over the past several years, Ronin Capital has met with representatives of the Fixed Income Clearing Corporation (FICC) to discuss a number of topics that we believe negatively impact members of the Government Securities Division (GSD). These topics include, but are not limited to:

- inefficiencies of the Cross-Margining Agreement with the Chicago Mercantile Exchange (CME),
- the ineffectiveness of TMPG fails charges in clearing up settlement issues,
- asymmetric risks presented to the FICC by High-Frequency Trading (HFT), and
- anticompetitive aspects of the Capped Contingency Liquidity Facility (CCLF).

Because the GSD is the leading provider of trade comparison, netting and settlement for Government securities,[1] including U.S. Treasuries, it is critical for liquidity in the U.S. Treasury market that the GSD remains economically viable for its members. Any negative effect to liquidity in U.S. Treasuries has the potential to degrade the liquidity premium of U.S. Treasuries - a premium estimated as high as 15%.[2] **Since the U.S. Treasury market is the primary means of financing the U.S. federal government, this liquidity premium greatly benefits the U.S. taxpayer.**

The U.S. Treasury market has always been a deep and liquid market. We believe the GSD greatly contributes to both liquidity and transparency. And yet, we believe the value proposition of the GSD is in decline. The GSD has already suffered a decrease in volumes which has resulted in fee increases.[3] Another proposed change, the CCLF, has the potential to add significant

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1 http://www.dtcc.com/clearing-services/ficc-gov
2 https://www.newyorkfed.org/research/staff_reports/sr590.html pg. 25
3 SEC Release No. 34-78529; File No. SR-FICC-2016-004 p. 3

asymmetric costs to some members, which could ultimately harm membership diversity. **Increased fees and higher margin requirements for GSD members may lead to further declines in volume - a vicious cycle**. In conjunction with these existing challenges, a new potential threat to liquidity and membership diversity is now being proposed - a change to the methodology used in the GSD VaR (Value-at-Risk) model. This specific change is the focus of this note.

On January 10, 2017, Ronin Capital met with representatives of the FICC as part of a small working group to discuss possible changes in the GSD VaR model. Unexpected volatility encountered during the presidential election was referenced by FICC representatives as causing an underperformance in the current GSD VaR model. As a result of this underperformance, it was stated that several GSD member-firms had presented unacceptable risks to the FICC. In order to mitigate these risks, it was communicated that urgent changes to the GSD VaR model were needed. In coordination with the Securities and Exchange Commission (SEC), a number of VaR model changes would be proposed and implemented over an abbreviated timeline.

Ronin Capital is concerned that this hasty reaction is unwarranted and could possibly cause more harm than good. It is self-evident that risk models are not static constructs. As circumstances change or as new information becomes available, risk models often need to evolve or be replaced. We have no problem with such changes as long as there is a proven benefit associated with any new costs. It is possible the new GSD VaR model will provide a measurable benefit to both the FICC and its membership. However, we have some general concerns related to:

- the appropriateness of utilizing a mortgage VaR model for U.S. Treasuries,
- the need for an abbreviated rule approval process, and
- general lack of transparency.

The remainder of this note is intended to expound on these general concerns in more detail.

Model Appropriateness

The main purpose of the meeting with the FICC was to discuss the need for a new GSD VaR model. However, additional items were also discussed. One item of note was the stated desire of the FICC to collapse the separate rulebooks of the Mortgage-Backed Securities Division (MBSD) and the GSD into a single cohesive rulebook. Naturally, an important prerequisite of this effort involves synchronizing disparate risk margin models.

Presently, the FICC has a rule filed with the SEC to replace the VaR model for the MBSD.[4] The need for replacement stems from the failure of an internal prepayment model, which "had failed

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[4] SEC Release No. 34-79491; File No. SR-FICC-2016-007

to perform as expected due to shifting market dynamics that were not accurately captured by the model."[5] While this failure may justify replacing the MBSD VaR model, it is certain that flaws in the prepayment model have no bearing on the construction of a VaR model for U.S. Treasuries. Is there a completely different rationale driving the desire to replace the GSD VaR model?

High-level details regarding the new GSD VaR model were described verbally during the meeting with the FICC. The methodology for calculating margin for GSD members was described in terms that nearly match the new MBSD methodology that was recently filed with the SEC. **Given significant credit-based differences between mortgages and U.S. Treasuries, we question whether it is appropriate to utilize the MBSD VaR model as a basis for margining U.S. Treasuries**. If analysis conducted in the aftermath of the Financial Crisis is used as a guide, fire-sale risk associated with mortgages is very different from that of U.S. Treasuries.[6] During any future crisis, we believe it is reasonable to assume that U.S. Treasuries will be in great demand, given their status as high-quality liquid assets (HQLA). Can the same be said of mortgages? Given the different profiles of these two asset classes, particularly during a crisis, we believe any risk model which is unable to differentiate U.S. Treasuries as a "special" asset class is flawed. Is it possible the desire to harmonize the rulebooks of the MBSD and the GSD results in a more generalized VaR model that may not properly acknowledge the "specialness" of U.S. Treasuries?

Abbreviated Rule Approval Process

FICC representatives characterized the need for updating the GSD VaR model as so pressing that an abbreviated rule approval process was being considered. The eventual plan is to employ a new sensitivity model approach to GSD VaR as a replacement for the current full evaluation approach. It is claimed that the sensitivity model approach outperforms the full evaluation approach by incorporating "both historical data and current risk factor sensitivities" as opposed to being "calibrated only with historical data."[7] Ignoring whether this new sensitivity model is appropriate for U.S. Treasuries, it seems rational that a "more comprehensive" model would improve on a model that was merely based on historical data. However, the FICC is not actually ready to implement the sensitivity VaR model for the GSD. Instead, urgency is driving the need to deploy an alternative volatility calculation (the "Margin Proxy") in the interim - this model is described in the MBSD rule filing as a "back-up to the sensitivity approach."[8]

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[5] SEC Release No. 34-79491; File No. SR-FICC-2016-007 pp. 6-7
[6] https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr616.pdf
[7] SEC Release No. 34-79491; File No. SR-FICC-2016-007 p. 11
[8] SEC Release No. 34-79491; File No. SR-FICC-2016-007 p. 21

Ronin Capital questions whether the risk to the FICC from the current "full evaluation" approach is so dire that a new "backup" model is required to be rushed into production. Is an abbreviated rule approval process appropriate when there are known flaws in the Margin Proxy model? For example:

> Invocation of the Margin Proxy would likely produce slightly higher VaR Charges for Clearing Members compared to the VaR model if reliable data were available because it would reduce certain risk offsets among portfolio positions. The Margin Proxy is expected to be invoked rarely.[9]

This reduction in risk offsets can be overlooked in the MBSD rule filing because the Margin Proxy methodology is only going to be used:

> ...in the event that the requisite data used to employ the sensitivity approach is unavailable for an extended period of time.[10]

However, this is not true for the GSD. **The expedited need for a new VaR model may result in the deployment of the "backup" Margin Proxy methodology for an extended amount of time**. This state of affairs may burden competition. As stated in the MBSD rule filing:

> FICC believes that any burden on competition from the availability of the Margin Proxy as an alternative that FICC may invoke under limited circumstances is appropriate in furtherance of the Act because it ensures that FICC will continue to have a methodology that it could use to calculate the VaR Charge in the event that a vendor data disruption reduces the reliability of the VaR model, thereby better limiting FICC's credit exposures to participants under such circumstances.[11]

No claim is made that the Margin Proxy alternative does not burden competition. It is only stated that the burden on competition is minimal because the Margin Proxy will only be utilized in limited circumstances.

Finally, the FICC conducted an extensive study for the MBSD before filing for a rule change:

> FICC conducted a study of the impact of implementing the proposed sensitivity approach on each Clearing Member's portfolio. The study, which covered two and a half years, revealed that the sensitivity approach is more responsive to changing market conditions.[12]

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[9] SEC Release No. 34-79491; File No. SR-FICC-2016-007 p. 29
[10] SEC Release No. 34-79491; File No. SR-FICC-2016-007 p. 7
[11] SEC Release No. 34-79491; File No. SR-FICC-2016-007 p. 29
[12] SEC Release No. 34-79491; File No. SR-FICC-2016-007 p. 28

Is such a study unnecessary for the GSD? Was market volatility following the election so extreme that an "untested" alternative volatility approach (the "Margin Proxy") is preferable to the full evaluation approach? The full evaluation approach may have known flaws, but the GSD membership has experience with the idiosyncrasies of the current model. Given the lack of transparency associated with FICC VaR models in general, does it make sense to rush a new "temporary" model into production without giving GSD members any length of time to prepare for its introduction?

Lack of Transparency

Ronin Capital certainly appreciates that FICC is communicating with members about sensitive topics before submitting rules for public commentary. We believe it is important for all members to have access to prospective rule changes *before* such rules are filed with the regulatory authorities. We also recognize that the FICC needs to weigh the needs of its membership in aggregate, which may result in rule changes that asymmetrically burden individual member firms. Given the potential burden on competition associated with any rule change, it is critical that the FICC is transparent to its membership.

We believe that the FICC benefits from member diversity. Consequently, it is also important for the FICC to ensure that its rules do not burden competition. There are major structural differences among current GSD members. In particular, there are vast structural differences between members that are bank-holding companies (BHCs) and those that are not (non-BHCs). These differences can result in a higher cost of capital for some types of firms when compared with others. As a result, detailed capital planning is more important for some GSD member firms than others.

The proprietary nature of the various FICC VaR models is stated as a need for keeping model details confidential. The following statement was made as part of the recent SEC rule filing made on behalf of the MBSD:

> The proposed sensitivity approach and Margin Proxy methodologies would be reflected in the Methodology and Model Operations Document - MBSD Quantitative Risk Model (the "QRM Methodology"). FICC is requesting confidential treatment of this document and has filed it separately with the Secretary of the Commission.[13]

In other words, there is documentation associated with the new MBSD model. However, this document is confidential. FICC members are only privy to verbal high-level details, and are thus responsible for attempting to simulate the model through trial and error on their own volition.

[13] SEC Release No. 34-79491; File No. SR-FICC-2016-007 p. 2

Ronin Capital believes this state of affairs is irresponsible. It is amazing in the year 2017 that GSD members cannot submit sample portfolios to the FICC on a pseudo real-time basis and receive calculated margin numbers. **Given differing costs of capital across the membership, the inability to conduct any type of scenario analysis with respect to VaR margin might be anticompetitive**. Any risk margin model should be rules-based and repeatable. Otherwise, there is likely an unfair burden on firms that have a higher cost of capital, when compared to competitors that do not.

Finally, the proposed sensitivity model approach relies on data provided by an external vendor. An advantage of this approach is that FICC would leverage "external vendor expertise, which FICC does not need to develop in-house."[14] This is also claimed as an advantage for transparency:

> The second benefit of the proposed sensitivity approach is that it would provide more transparency to Clearing Members. Since Clearing Members typically use risk factor analysis for their own risk and financial reporting such Members would have comparable data and analysis to assess the variation in their VaR Charge based on changes in the market value of their portfolios.[15]

We are not sure this "transparency" will come without a significant cost. If the FICC does not provide a mechanism for analyzing the margin requirements of sample portfolios, are members required to build their own sensitivity models in the hope of replicating FICC's model? Will GSD members be forced to contract with an external vendor for risk factor data?

Finally, in order to margin U.S. Treasuries effectively, is it truly necessary to "leverage external vendor expertise"[16] when SEC net capital rules (15c3-1) for U.S. Treasuries have proven effective for many, many years?[17]

Unintended Consequences?

Newly filed MBSD rules contain a new risk mitigation method which is called a "VaR Floor." This VaR Floor "would be employed as an alternative to the amount calculated by the proposed model for portfolios where the VaR Floor would be greater than the model-based charge amount."[18]

[14] SEC Release No. 34-79491; File No. SR-FICC-2016-007 p. 11
[15] SEC Release No. 34-79491; File No. SR-FICC-2016-007 pp. 11,12

[16] SEC Release No. 34-79491; File No. SR-FICC-2016-007 p. 8
[17] The SEC Net Capital Rule (Rule 15c3-1)
[18] SEC Release No. 34-79491; File No. SR-FICC-2016-007 p. 14

Because it is applied to "gross unsettled positions,"[19] the VaR floor seems to be intended to mitigate risks presented by members that are engaged in rapidly turning over their portfolios. While not commenting on the need or appropriateness of such a change with respect to the MBSD, Ronin Capital believes a similar change to GSD rules would certainly ensure that no high-frequency trading (HFT) firms would ever join the FICC. Aside from a regulatory mandate forcing all U.S. Treasury transactions to be centrally cleared, this rule change would seem to guarantee that the significant trading volumes conducted by principal trading firms (PTF)[20] will continue to clear outside of the FICC. Is this a desired result?

Conclusion

Ronin Capital believes that the GSD is critical for liquidity in the U.S. Treasury market. Unfortunately, declining volumes have led to increases in fees. This reduces the value proposition of centralized clearing, despite the many tangible benefits. Higher margin requirements might have an even worse effect on membership. Cost of capital differences among member firms may lead to asymmetrical impact. This could harm GSD member diversity.

We believe the desire for harmonizing rules for mortgages and U.S. Treasuries may result in VaR model calculations that don't recognize the "specialness" of U.S. Treasuries. Are the risks to the FICC so great that an alternative volatility calculation (the "Margin Proxy") needs to be approved and deployed in an abbreviated timeframe? We believe this hasty response might do more harm than good, given a lack of transparency. This is particularly true if the potential effects on the membership are asymmetrical.

Given the potential for asymmetrical impact to the GSD membership as well as a general lack of transparency, we believe any new rule filing should be delayed until:

- proper impact studies are conducted with respect to the effects of the VaR model change on GSD members,
- technology is put in place to enable GSD members to submit sample portfolios in order to conduct margin-based scenario analysis.

We believe the FICC must ensure that any rule change does not present a competitive burden on a particular type of member firm. We also believe that membership diversity benefits liquidity in U.S. Treasuries. This ultimately benefits the U.S. taxpayer.

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[19] SEC Release No. 34-79491; File No. SR-FICC-2016-007 pp. 7,14
[20] Joint Staff Report: The U.S. Treasury Market on October 15, 2014