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Ms. Elizabeth Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: Comment Letter on the Notice of Filing Submitted by the Fixed Income Clearing Corporation (File Number: SR-FICC-2010-09)

Dear Ms. Secretary:

I am a Professor of Law and the Director of the Center on Financial Services Law at New York Law School. Before joining the faculty here in 2008, I was a Managing Director in the Capital Markets Prime Services Division at Lehman Brothers. I have also had the opportunity and good fortune to serve as a Member of the Board of Directors and Advisory Committees on various Derivatives Clearing Organizations ("DCOs") and Designated Contract Markets ("DCMs") during my 35+ year career in the futures and derivatives industry. I am currently a Member of the Board of Directors of NYSE Liffe US.

I appreciate this opportunity to submit this letter in strong support of the proposed rule amendments recently submitted by the Fixed Income Clearing Corporation ("FICC") to allow cross-margining of certain positions held at its Government Securities Division ("GSD") with the New York Portfolio Clearing ("NYPC") and urge the Commission to approve these proposed rule amendments promptly. This cross-margining arrangement between FICC and NYPC shall hereinafter be referred to as the NYPC Arrangement, the term used by the Commission in its proposed notice set forth in the Federal Register (75 FR 229, at 74110, November 30, 2010).

During my career in the financial services industry with a special emphasis on global futures-related matters, I have always advocated the need for more and greater competition within our great industry in general and for the need to enhance portfolio margining concepts in particular for the significant benefits that such competition and effective utilization of capital brings to the various participants and, of course, to the markets as a whole. It is well understood that competition at all levels and among all registrants, whether they be a DCO, a DCM or even a cross margining model that is being addressed with this proposal, encourages innovation and capital efficiencies, drives down costs and provides various parties with improved choices. This is especially true regarding the NYPC Arrangement and its proposed structure and operation.

NYPC is an equal partnership between NYSE Euronext and the Depository Trust Clearing Corporation ("DTCC"). As such, NYPC will provide "open access" clearing of interest rate futures contracts while offering a single pot margining for both interest rate futures contracts traded on NYSE Liffe US and cash government securities cleared at the FICC through the NYPC Arrangement. From my understanding, this unique one pot portfolio margining methodology will provide significant efficiencies for market users while maintaining the highest risk standards required by the FICC in today's marketplace. The concept of portfolio margining is a very unique and important tool that provides important benefits while preserving necessary risk-based margin analysis, the fundamental analysis now used by all clearinghouses globally.

Unlike the traditional vertical clearing model that has, for the most part, been part of the futures industry, NYPC is built as an "open access" clearinghouse modeled after the new Dodd-Frank legislation and will open its doors to all exchanges and clearinghouses that meet certain objective criteria. By allowing multiple trading platforms free and open access to a clearinghouse, competition at the trading platform level will begin to develop and flourish. This open clearing model is in stark contrast to the closed vertical model that has, to a major extent, stymied new futures trading entrants in the past.

Also, as I understand, FICC will continue to employ the Value at Risk ("VaR") methodology for setting margin, which is a well-regarded risk modeling technique that many financial firms currently utilize. FICC will thus look back 250 days of historical information for futures positions and 252 days of historical information for the cash positions, with a continuation of utilizing extreme value theory to determine the 99th percentile of loss distribution. In particular, FICC will utilize a front-weighting mechanism to determine this 99th percentile test, thus placing more emphasis on more recent events. Through the implementation of this one pot arrangement, according to the Commission's notice, the capital efficiencies may be as high as twenty percent (20%) for common FICC-NYPC members, a meaningful efficiency.

Most importantly for regulators, the NYPC Arrangement will create unprecedented transparency of risks across derivatives and cash securities for U.S Treasuries, which will allow the clearinghouses and regulators to better monitor and mitigate risk concentrations and coordinate the liquidation of these hedged assets in a more price stable manner during a default. The reports that will be provided by the NYPC Arrangement will clearly enhance market transparency and the ability for the government to monitor such transactions.

I also strongly support the concept, as outlined in the Commission's notice, that this "... proposed one-pot cross-margining method would allow members to post margin based on the net risk of their aggregate positions across asset classes, thereby releasing excess capital into the economy for more efficient use" and the statement that "... the proposal between FICC and NYPC has the potential to create a substantial pool of highly correlated assets that are capable of being cross-margined". Clearing plays such an important risk management role in today's marketplace. In fact, clearing reduces systemic risk, through its structure and procedures. As more and more financial products find their way toward clearing, especially after the Dodd Frank Act, one pot cross-margining concepts should be strongly encouraged as long as they provide important protections to other users in the event of a member's default. The NYPC Arrangement clearly provides these important protections to the other member firms.

The NYPC Arrangement is also a step in the right direction that enhances the concept of portfolio margining. First introduced just a few years ago through amendments to NYSE Rule 431 that was supported by the Commission, portfolio margining has not achieved its true effectiveness. Recent changes to the U.S. Bankruptcy Code by the Dodd-Frank Act and continuation of new risk-based modeling approaches such as the one being addressed by the NYPC Arrangement are steps in the right direction. These capital and margin efficiencies should be strongly encouraged by the Commission as long as they address the underlying protections that are needed and required. The NYPC Arrangement clearly meets this test.

I understand that some firms have voiced their concerns that the NYPC Arrangement is anti-competitive and imposes an unnecessary burden on competition. I strongly disagree with these expressed views. As the Commission has clearly noted, NYPC will "clear for additional DCMs that are interested in clearing through NYPC as soon as it is feasible for NYPC to do so" and that "(s)uch additional DCMs will be treated in the same way as NYSE Liffe US ...". I do not see how such an arrangement imposes an unnecessary burden on competition. Any new arrangement needs the requisite time to ensure that it satisfies all of the underlying concerns and issues that may occur with any new concept.

As noted above, I strongly encourage the Commission to expeditiously approve the proposed rule amendments being submitted by FICC as the NYPC Arrangement will bring significant benefits to the marketplace. Thank you once again for allowing me to submit this comment letter.

Very truly yours,

Ronald H Filler

CC: Hon. Mary Schapiro, Chairman
Hon. Kathleen Casey, Commissioner
Hon. Elisse Walter, Commissioner
Hon. Luis Aguilar, Commissioner
Hon. Troy Paredes, Commissioner