**Via Electronic Submission (www.regulations.gov)**

**U.S. Securities and Exchange Commission**
**Washington, DC**

**Re: Notice Seeking Public Comment on SR-FICC-2017-001** Notice of Filing of Proposed Rule Change to (1) Implement the Margin Proxy, (2) Modify the Calculation of the Coverage Charge in Circumstances Where the Margin Proxy Applies, and (3) Make Certain Technical Corrections

To whom it may concern:

Industrial and Commercial Bank of China Financial Services LLC ("ICBCFS") appreciates the opportunity to respond to the U.S. Securities and Exchange Commission ("SEC") and submit comments regarding rules changes to the risk calculation for members of The Depository Trust and Clearing Corporation government securities division ("DTCC").

**I. ICBCFS Background**
ICBCFS is a leading securities firm offering clearing and financing services to institutions in various asset classes that includes US Treasuries, US agencies and agency MBS. ICBCFS does not have any proprietary trading desks. We support institutional trading firms in the US Treasury market and provide an important function of providing liquidity to the marketplace in both the clearing and financing of these asset classes. As a member of DTCC it is imperative that ICBCFS have a complete understanding of the new model and can accurately calculate the margin requirements of DTCC. The lack of tools to understand the model, which drives margin requirements and affects the member's cash liquidity, can result in the member firm reducing its activity in the marketplace.

**II. Discussion**

**Lack of transparency**

DTCC first had discussions with its members on the change of its margin calculation on January 10, 2017. DTCC provided an overview of the new margin proxy. In order for ICBCFS to provide financing and clearing services to our clients it is imperative that we are able to calculate our expected margin requirements prior to providing these services. Over the years ICBCFS has been able to approximate FICC's current margin model which allows us to effectively manage our cash liquidity. On February 1, 2017 FICC did provide a document that provided some information on the new model and provided us what the margin proxy change would be compared to the current model. For the period October 31-December 30 timeframe FICC provided a comparison of the current model compared to the margin proxy model. ICBCFS would have seen an increased margin requirement of 8%. On February 15 we requested a comparison for one year of data and margin increases and we noticed on some dates we saw

increases ranging from 40%-80%. We have asked for clarification on what may be driving these numbers to gain a better understanding on how this new model functions. FICC is doing their best to provide answers to questions, but in general terms. This new margin proxy formula is being rushed through an abbreviated rule approval process without its members having a full understanding of the changes. This is limiting member's ability to provide feedback and comments that may be helpful in providing suggested changes and enhancements. The absence of a tool to calculate and project margin requirements or a detailed document to build a tool prior to implementation leaves members in a position of not being able to accurately manage its margin requirements.

**Current versus proposed model:**

While we have had limited time to fully understand the margin proxy model, but we believe there are inherent flaws in its design.

- The current GSD VAR (Value-at Risk) model uses a portfolio approach using one year's pricing history data weighted towards the current date. As explained by DTCC, the new model uses 10 years of equally weighted pricing history dividing the portfolio down into buckets. Each bucket uses a weighted average index to determine the risk factor to be applied against the position for that bucket. A co-variance matrix is then run between each bucket providing some offsets between buckets. The flaw in this methodology arises for firms that have offsetting position that are close in duration, but each leg falls into a different bucket. This can have a drastic impact on the margin calculation since the offset in the corresponding bucket is the weighted average duration instead of actual duration. It should also be noted that while DTCC is using 10 years of data they may include at their discretion data that is beyond 10 years. We believe that since 2009 there have been many regulatory changes and the amount of leverage we saw pre credit crisis has been substantially reduced; therefore using 10 years of data that includes 2007-2009 misrepresents the current risk environment.
- For members involved in the when issue rolls (selling the current and purchasing the WI) the new margin calculation will have a dramatic effect on margin calculations as one leg in one bucket and the other leg in a corresponding bucket during the WI period.
- There is a flaw in both the current and proposed model as intra-day fails are included as positions for the mid-day margin call. DTCC currently looks at fails (fail on a second leg of repo) and includes that position risk in its mid-day calculation even if that position was rolled through the repo brokers. Since the first leg of the new repo is compared and DTCC assumes that risk there is no position risk to DTCC. DTCC has stated they are reviewing this issue.

**Conclusion:**

As a result of the abbreviated comment period and the inability to determine if there are inherent flaws in the model for liquidity management purposes member firms may need to limit their activity by reducing balance sheet if they can't project margin requirements accurately at both end of day and intra-day. This may also lead member firms to increase their execution of repo

on a bi-lateral basis instead of using DTCC as a CCP. US Treasury repo on a bi-lateral basis requires very little or no margin which would essentially introduce more systemic risk into the marketplace and specific firms. We believe that there should be an extended review period for members to better understand the proposed model and then if changes are made to the model an additional comment period. We also would request a 90 day implementation period so FICC can provide to its members detailed information on the Margin Proxy calculation so members can build a tool to calculate the margin so members can effectively manage its daily liquidity.

Very truly yours,
Industrial and Commercial Bank of China Financial Services LLC

Alan Levy
Managing Director