October 6, 2017

U.S. Securities and Exchange Commission
Washington, DC 20549
Attn: Mr. Eduardo Aleman, Assistant Secretary

RE: FILE NUMBER SR-FICC-2017-002

Dear Mr. Aleman:

Industrial and Commercial Bank of China Financial Services LLC ("**ICBCFS**")[1] appreciates the opportunity to further comment on a proposed rule change by the Fixed Income Clearing Corporation ("**FICC**") regarding rule changes to implement the Capped Contingency Liquidity Facility ("**CCLF**").[2] On September 15, 2017, the Securities and Exchange Commission (the "**Commission**") requested additional comments on the Attestation Requirement, including, among other things, how netting members will fulfill such requirement, costs and changes to trading behavior, and the value of FICC liquidity funding report.[3]

ICBCFS, along with three other firms, previously submitted a letter dated June 27, 2017 and May 24, 2017 in response to a previous Commission request for comment on the FICC Proposal.[4] That letter set forth an overview of our concerns as to which this letter provides additional detail and raises further concerns. With that said, ICBCFS believes that additional time is required to address the issues raised by the FICC Proposal. This further time for consideration, given the potential costs that the proposal could impose on market participants.

Attestation Requirement

We are concerned that there has been no guidance on how member firms would need to fulfill its liquidity requirement once the member has signed its attestation with FICC. In discussions with ICBCFS, FICC has taken the view that the matter should be addressed between the member and its regulator. Under a strict interpretation, if the regulator would require committed liquidity and not allow a member, as part of its plan to rely on the repo markets for its liquidity funding in case of a CCLF event, the member would need to rely on its liquid capital or get a committed repo or secured loan facility that can be drawn upon on short notice. ICBCFS has contacted a few

1 ICBCFS is a broker-dealer registered with the SEC, a member of FINRA, and a netting member of the Fixed Income Clearing Corporation.

2 Exchange Act Release No. 80234 (Mar. 14, 2017); 82 Fed. Reg. 144101 (Mar. 20, 2017) (the "**FICC Proposal**").

3 Exchange Act Release No. 81638 (Sept. 15, 2017); 82 Fed. Reg. 44234, 44235 (Sept. 21, 2017).

4 *Available at*: https://www.sec.gov/comments/sr-ficc-2017-002/ficc2017002-1860014-156196.pdf.

money center/regional banks (five) to determine if such a facility is available and each have stated that they would not offer such a facility. There were varying reasons, and due to the relatively brief comment period, we have not been able to speak to additional institutions. As such, we strongly suggest that the SEC and/or FICC further investigate if these committed repo or secured funding facilities are available and, if not, how member firms that are not the large money center banks (or affiliated with a large money center bank) will be able to meet this requirement.

Costs and Changes to Trading Behavior

There are a number of ways that a member can reduce its CCLF requirement, but each involves costs to the member and, ultimately, the marketplace. Costs would need to be passed along to the member's clients, which could reduce liquidity if these costs make such clients' trading strategies unprofitable. In addition, if only some market participants do not need to change trading behavior because of excess liquidity, such as those affiliated with large banking institutions, this will cause a competitive imbalance by forcing some firms to cease being FICC members.

Execute forward trades: If a member is rolling a financing (a common practice), such member can execute a forward repo. In this fact pattern, both the "on leg" and "off leg" would net and have no CCLF requirement. Given that the forward market is nearly not as liquid as the same-day market, ICBCFS expects that this would result in an additional cost of five to ten basis points.

Repo term trade greater than 30 days: A member can execute a 30-day general collateral finance ("**GCF**") term repo trade and finance its non-member customers on an overnight basis. If a CCLF event were to occur, ICBCFS would not roll over its non-members' financing, and would fulfill our term repo requirement with the FICC collateral. While this would solve members' CCLF requirement, non-members would need to seek alternative funding at a time of marketplace stress. If the non-member could not find alternative financing, it could be forced into a fire sale liquidation. The increased cost of hedging the term repo exposure with swaps or futures would likely be ten or more basis points.

Execute bilateral: Another waya member firm can reduce its CCLF requirement is to execute trades with non-members on a bilateral basis. Increasing the costs of clearing through the FICC will compel firms to move away from central clearing to bilateral transactions, which may be less efficient, but also materially less expensive. The use of bilateral repo lines will reduce efficiency in the marketplace and will also weaken the FICC's ability to monitor a member's risk. Given that the support of central clearing was a primary purpose of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("**Dodd-Frank**"), it is an odd result that rules adopted pursuant to Dodd-Frank could have the opposite effect by imposing excessive costs based on concerns of a scenario that is implausible and addressed by other provisions of Dodd-Frank.

Value of the daily FICC Liquidity Fund Report:
While we have not seen an example of such report, we believe it would have limited value. Such a report would tell member firms, after the fact, what its requirement is, but does not have any forecasting value, given that the total requirement is dependent on what the requirement for the largest member. Member firms cannot manage a liquidity requirement *after* it has been incurred.

Conclusions:

The CCLF, as proposed by the FICC, is intended to deal with a problem that does not exist; *i.e.*, it posits a state of the market that is not plausible. In a time of market crisis, investors flee risky securities and move into safe instruments, such as U.S. government securities. This behavior was seen to be the actual conduct of market participants following the failure of Lehman Brothers in 2008.

That the CCLF will serve no purpose in a crisis should be argument enough against its imposition. However, the far more significant issues are the problems and costs of the CCLF in ordinary times. These are in summary as follows:

- The CCLF will drive smaller and mid-sized firms from FICC membership, increasing market concentration.

- The CCLF will compel firms to move from central clearing to bilateral transactions, a market that has sometimes been referred to as "shadow banking."

- The CCLF will reduce funding available for the government securities markets, which will reduce demand and raise the cost of funding the government

- The CCLF will drive hedge traders from the market, which will decrease liquidity, making the yield curve more discontinuous, and increasing the likelihood of market breaks.

Given the importance of the market for U.S. government securities, and the potential impact that the FICC Proposal could have on that market, we urge that a in-depth study be conducted, not simply asking members to comment in a short timeframe, of the costs and benefits of the FICC Proposal. Such a study should not be confined to the narrow question of whether the rule change might provide the FICC with more liquidity, but should take account of the U.S. markets as a whole. Ideally, the participants in the study would include a broad range of regulators that have an interest in the continuing strength of the U.S. government securities markets, including, in addition to the SEC, the U.S. Department of the Treasury and the other regulators that participated in the study of the 2014 market break.[5] Among the questions that the study might consider as to the CCLF are the following:

- Will CCLF reduce the number of firms that clear U.S. governments through FICC and, if so, how many firms will leave the FICC?

- What will be required for member firms to fulfill their liquidity requirements? If a committed facility is needed are they attainable?

- As to those firms that remain clearing members of the FICC, will CCLF reduce the volume of business that they clear with the FICC, and, if so, how great will be the reduction in volume?

- In light of the answers to the above two questions, will the CCLF increase market concentration, and if so, how much? Will such increased concentration, exacerbate concerns as to market participants becoming "too big to fail"?

- Will the CCLF compel firms to move away from central clearing towards bilateral clearing relationships?

- To the extent that there is a reduction of involvement by clearing firms in the U.S. government securities market, how will that affect market participants? Will different classes of market participants be differently affected, particularly participants that engage in hedge transactions in high notional amounts that result in low risk exposures?

- If hedge participants exit or reduce participation in the U.S. governments market, will that have a negative effect on pricing so that the yield curve becomes discontinuous and government securities become difficult to price?

- Will any discontinuity in pricing have a negative effect on the auction for U.S. government securities?

- Is the result of the CCLF to drive transactions to BONY is a time of a market break? If so, is that a stress that BONY (as the only primary triparty clearing bank remaining in the market) able to bear? How does risk at BONY affect the Federal Reserve?

- Perhaps most significantly, do these changes result in the U.S. government having to pay a higher rate to borrow and materially raise the cost of funding the government (a result which would ultimately be felt by U.S. taxpayers)?

ICBCFS sincerely appreciates the time and effort the Commission and its staff have taken to consider our comments and to meet with us in person. We would welcome the opportunity to discuss the issues raised in this letter further.

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5 Joint Staff Report: The U.S. Treasury Market on October 15, 2014 (July 13, 2015), *available at* https://www.treasury.gov/press-center/press-releases/Documents/Joint_Staff_Report_Treasury_10-15-2015.pdf.

Very truly yours,

Alan Levy
Managing Director

Other signatories to this comment letter:
Robert Pooler, Chief Financial Officer, Ronin Capital, LLC