October 12, 2017

VIA ELECTRONIC SUBMISSION
(www.regulations.gov)
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549
Attn: Mr. Eduardo Aleman, Assistant Secretary

RE: FILE NUMBER SR-FICC-2017-002

Dear Mr. Aleman:

Ronin Capital, LLC ("Ronin") appreciates the opportunity to fully engage on this issue and further comment on a proposed rule change by the Fixed Income Clearing Corporation ("FICC") to modify the Government Securities Division ("GSD") Rulebook to implement the Capped Contingency Liquidity Facility ("CCLF"). This letter constitutes our rebuttal to the second comment letter submitted by the FICC to the U.S. Securities and Exchange Commission (the "Commission") regarding SR-FICC-2017-002 (the "Proposed Rule Change"). In this second comment letter (the "Second FICC Letter")[1], the FICC responds to the Commission's request for additional information. Our rebuttal will focus on the additional information provided to the Commission by the FICC.

The FICC responds to our concerns by stating that each Netting Member's CCLF requirements would be a function of the liquidity risk that each Netting Member's activity presents to the GSD and that each Netting Member has the flexibility to determine how to meet this liquidity obligation. This ignores the fact that half of the Netting Membership is composed of smaller and medium sized Netting Members who pose no liquidity risk to the FICC yet are expected to subsidize the liquidity risk of the largest Netting Members. As an example, during the 2008 Crisis, Ronin was able to fund its obligations without any issue and without any government assistance. In fact, the Proposed Rule Change imposes a true cost on these smaller and medium sized Netting Members while those larger Netting Members who create the risk are simply able to footnote the liability at no cost. Clearly, this is unduly burdensome on smaller Netting Members and discriminatory in its practice.

To support their argument, the FICC even offers that Netting Members can meet their liquidity obligation by using a 1-month term repo. In practice, the option of using a 1-month repo is not a viable option and would not have the desired effect of reducing risk. Rolling 1-month repos would likely not be available during times of crisis and their terms can change unexpectedly causing great uncertainty for Netting

[1] See letter from Timothy J. Cuddihy, Managing Director, FICC, dated October 6, 2017, to Robert W. Errett, Deputy Secretary, Commission (the "Second FICC Letter")

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Members forced to use such an option. Under such a scenario, Netting Members would have to shift out of term repo into overnight repo which would cause peak liquidity exposure to actually increase dramatically in times of crisis instead of decrease. Moreover, it is our understanding that regulators would not accept a rolling 1-month term repo as a compliance strategy, so clear compliance guidelines would have to be put in place in order to rely on this as a viable alternative. If the Commission wants to reduce risk and make the markets run in a fair and non-discriminatory manner so that you optimize competition and activity, they should fully and independently investigate the data and determine the best outcome. We believe that when the Commission does this, they will reject the Proposed Rule Change and develop a better liquidity plan than the one proposed.

**Manner in which Netting Member could comply with the Proposed Rule Change.**

The FICC states:

- In an effort to provide Netting Members with an appropriate level of flexibility, FICC does not impose any specific rules regarding the manner in which such Netting Members must meet their liquidity obligation. This approach allows Netting Members to consider options that best suit their specific business, operating model, balance sheet, liquidity plans, and ownership structure.[2]

By encouraging flexibility and providing no clear guidelines even after repeated requests by Ronin and other Netting Members, the FICC ensures that the CCLF will impact the Netting Members in a non-uniform way. Instead of clear compliance guidelines, the FICC sets forth that the rolling 1-month term repo is one solution:

- For example, upon implementation of the Proposed Rule Change, Netting Members could access the repurchase ("repo") agreement market to borrow funds through a 1-month term repo arrangement. In the event that the associated funds are not required during a CCLF Event, an overnight reverse repo arrangement could be initiated with the surplus liquidity.[3]

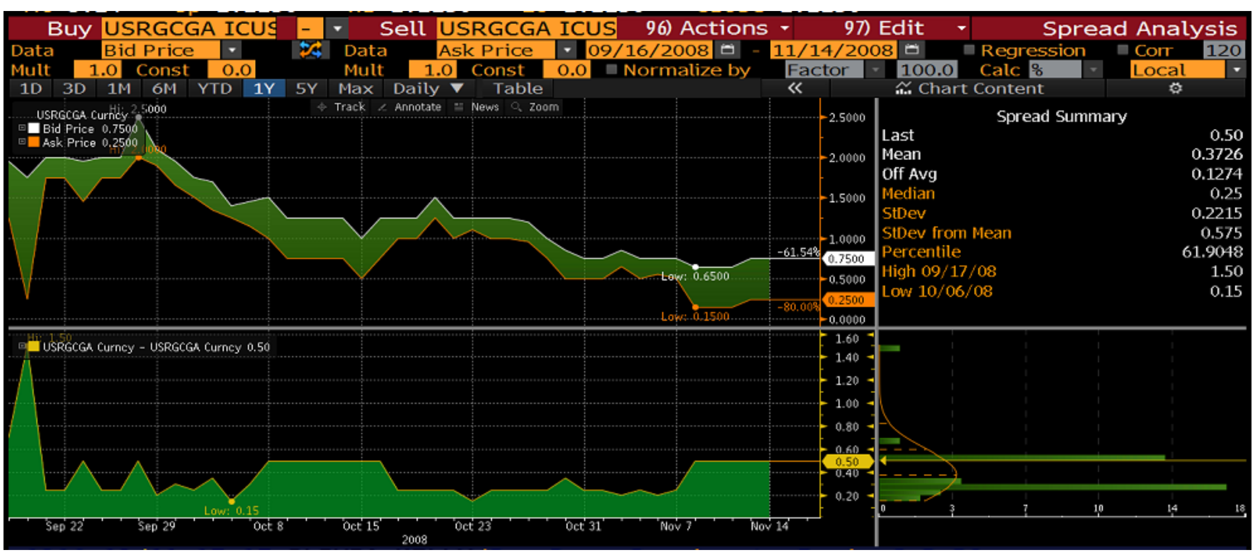
First, it is our understanding that regulators may not view a rolling 1-month term repo as a "committed enough" strategy to demonstrate regulatory compliance. It is, therefore, incumbent on the FICC to provide clear written compliance guidelines which state that a rolling 1-month term repo would be a sufficient means of complying with the CCLF both now and in the future.

Second, the FICC underestimates and trivializes the cost of complying with the Proposed Rule Change for smaller Netting Members by extrapolating future costs from indicative data acquired during a zero-interest rate low-volatility environment. Compliance via a 1-month term repo presents a cost far greater than as described in the Second FICC Letter. The FICC delves into a costing exercise for the 1-month term repo – arriving at a cost of 4 bps. Unfortunately, the data the FICC is using to arrive at the 4 bps cost is misleading. FICC's choice of a 5-year window is arbitrary and likely significantly misrepresents the "normal" spread between term and overnight repo, since Fed Funds was pegged to zero for much of

[2] See Second FICC Letter pp. 2-3
[3] See Second FICC Letter p. 3

FICC's 5-year window. In contrast, the 1-year mean spread is 9.5 bps with a standard deviation of 13 bps (source Bloomberg).


Also, the underlying data that FICC is using as its source, the USD Repo Govt GC 1M Repo[4] data, is merely indicative data (confirmed by Bloomberg). The problem is that there are no actual trades or volumes associated with this data. FICC is simply using bid and ask data from a single source (ICAP) with the "price" set to the midpoint of the bid/ask spread. The ability to transact at this midpoint cannot be assumed and is likely implausible. This fact becomes apparent if we extend the study to include crisis data (source Bloomberg).

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[4] Bloomberg Ticker USRGCGA ICUS Curncy

The above figure details the bid/ask spread for the USD Repo Govt GC 1M Repo during the two months following the collapse of Lehman Brothers - from 09/16/2008 to 11/14/2008. The indicative bid/ask spread averages 37 bps with a lot of variance. It seems doubtful that 58 Netting Members could roll $4.96 billion[5] of 1-month term repos in order to comply with the CCLF requirement during such crisis conditions. Again, these prices are only indicative. If term repo is even available in a crisis, it is certain to come at a high cost. We know from research referenced in the Third Ronin letter[6] that term funding becomes scarce even though there is incredible demand for Treasury collateral in the overnight repo market.[7] Therefore, the FICC is greatly underestimating the cost incurred on smaller Netting Members in complying with the Proposed Rule Change.

Third, the problem with the 1-month term repo is that they likely will not be available when needed and their terms can change without notice. For example, the FICC changed the terms on GC trades in the wake of the Lehman default and removed rights of substitution. If the Netting Members had paid for 1-month repos before the Lehman default, they would have paid much more after the default and their contract terms would have changed without notice. If the rolling 1-month repo is truly a viable alternative, the Netting Members need clear compliance guidelines stating how this method will satisfy the CCLF requirements, what the costs incurred and terms will be, and assurances that FINRA and other regulators are on board and agree that this will satisfy the requirements both now and in the future. Clear compliance guidelines should also state the course of action smaller Netting Members must take if a 1-month rolling term repo becomes unavailable or unaffordable due to crisis conditions. The guidelines should state what actions a Netting Member must take under these conditions and whether a Netting Member is required to liquidate their Treasury portfolios or whether overnight repo would suffice as a means of compliance until "normal" conditions returned. Allowing smaller Netting Members to footnote the liability or requiring larger Netting Members to fully bear the entire burden of the liquidity risk they alone pose may help the Proposed Rule Change pass the "non-discriminatory" standard required for complying with the Exchange Act.

**The value of GSD's daily liquidity reporting and the manner in which such information could help Netting Members adjust their trading behavior and manage their liquidity risk to FICC.**

The FICC's claim that Netting Members could reduce their peak liquidity exposures by modifying their overnight settlement activity does not take into account that during crisis conditions market participants shift out of term repo into overnight repo which will cause peak liquidity exposures to increase dramatically. The FICC states:

- For example, based on the information in the liquidity funding report, a Netting Member could stagger the maturities of its repo trades by entering into term repos in order to reduce its peak

[5] See Second FICC Letter p. 3
[6] See letter from Robert E. Pooler Jr., Chief Financial Officer, Ronin, dated October 6, 2017, to Robert W. Errett, Deputy Secretary, Commission (the "Third Ronin Letter");
[7] See Third Ronin Letter p. 3

> overnight exposure. In connection with this change, it would cost a Netting Member an average of 4 basis points annualized (or $40,000 per $100 million of repo notional trade amount).[8]

The FICC again references the 4 bps cost - shown above to likely be an underestimate of the true cost. As pointed out in the Third Ronin Letter, during crisis conditions market participants shift out of term repo into overnight repo.[9] Instead of reducing peak liquidity exposures as the FICC asserts, this type of behavior will cause peak liquidity exposures to *increase* dramatically. The FICC should also share its data of the "peak liquidity need" of the largest participant family during the financial crisis. Netting Members are not given information about the total risk, but are expected to plan for it. Knowing the historical largest historical peak liquidity need faced by the FICC, would help Netting Members and regulators properly plan for such a scenario.

**The CCLF Proposal addresses a risk that spans beyond extreme but plausible.**

We have not seen any data from the FICC or the Commission that backs the precondition that FICC would be unable to act on its own behalf. On the other hand, the amount of data illustrating the insatiable demand for U.S. Treasuries during all conditions and particularly during crisis conditions is overwhelming. In the Third Ronin Letter, we question the merits of the "extreme, but plausible" set of conditions that would result in FICC's inability to act on its own behalf.[10] We conclude that historical data and research shows this precondition to be implausible. FICC acknowledges the following:

- as the financial crisis unfolded in 2007 and 2008, the Federal Reserve took several extraordinary actions that supported the overall financial market and increased demand for U.S. Treasuries.[11]

U.S. Treasuries were in such great demand as the financial crisis unfolded that the Federal Reserve took extraordinary actions to increase the supply. It follows, therefore, that if the Federal Reserve did not take such actions to increase the supply, there would be an even greater demand for U.S. Treasuries.

The FICC also states:

- In addition, the Federal Reserve provided liquidity directly to borrowers and investors in key credit markets, expanded its open market operations to support the functioning of credit markets, lowered longer-term interest rates, and reduced market stress through the purchase of longer-term securities for the Federal Reserve's portfolio.[12]

We find it implausible that the FICC will be unable to act on its own behalf because of the limited ability of the Federal Reserve to support the credit markets. Support for credit markets has little to do with U.S. Treasuries. U.S. Treasuries are not a "credit" product. The FICC doesn't address whether the preconditions that would lead to a "CCLF Event" are plausible. The FICC merely states that the Federal Reserve would be more limited in any future crisis because of Dodd-Frank. Research shows the demand

[8] See Second FICC Letter p. 4
[9] See Third Ronin Letter p. 3
[10] See Third Ronin Letter pp. 4-5
[11] See Second FICC Letter p. 5
[12] See Second FICC Letter p. 5

for U.S. Treasuries actually increased, despite the actions of the Federal Reserve (which acted to increase supply). Therefore, we find it implausible that the FICC will be unable to act on its own behalf because of the limited ability of the Federal Reserve to support the credit markets.[13]

**The CCLF Proposal may impact the behavior of smaller Netting Members.**

The FICC takes exception to claims made in our previous comment letters that the Proposed Rule Change may force smaller Netting Members to withdraw from the FICC:

- ...the Proposed Rule Change could force some Netting Members to withdraw from GSD and clear through other Netting Members, thereby decreasing competition and increasing concentration in the clearing business. These letters offer no substantive support for these concerns. The letters merely assert that this may or could happen.[14]

Without clear guidelines and with burdensome costs for lines of credit, it is not an unreasonable prediction that many smaller and medium sized Netting Members will move to bilateral settlement or out of the market entirely. The cost of compliance for smaller Netting Members is uncertain, and this cost cannot simply be footnoted as a "contingent" liability. Without clear guidance from the FICC of what the uniform compliance requirements are for all Netting Members or how they will be enforced, smaller Netting Members are unable to effectively plan to comply with regulators. Larger Netting Members who footnote the liability, do not have this issue or cost and this is discriminatory.

**Consistency of the Proposed Rule Change with the Exchange Act**

The FICC in its own statements acknowledges that the Proposed Rule Change would burden competition and that a need for Netting Members to pre-fund their FICC liquidity requirements (such as forcing Members to obtain a line of credit) would be a problem that needs to be solved.

The FICC acknowledges that the Proposed Rule Change could burden competition:

- The Proposed Rule Change notes that the burden on competition that is created by the Proposed Rule Change is necessary and appropriate to comply with the requirements of the Exchange Act and the rules thereunder.[15]

The FICC notes that this burden on competition is necessary in order to comply with the requirements of the Exchange Act. We contend that the Proposed Rule Change is discriminatory and that the FICC has the flexibility to comply with the Exchange Act in a manner that is non-discriminatory. We make this argument initially in our first comment letter (the "First Ronin Letter")[16] by suggesting the NSCC's "SLD

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[13] See Third Ronin Letter p. 5

[14] See Second FICC Letter p. 6
[15] See Second FICC Letter p. 7
[16] See letter from Robert E. Pooler Jr., Chief Financial Officer, Ronin, dated April 10, 2017, to Robert W. Errett, Deputy Secretary, Commission (the "First Ronin Letter")

Proposal" as one such possible alternative to the CCLF.[17] The FICC responded to this suggestion in its first comment letter (the "First FICC Letter")[18] by stating:

- Given the nature of the securities financing transactions cleared at FICC, the CCLF proposal would allow FICC to access Netting Member financing on a contingent (as opposed to an ongoing) basis and would offer a solution that would (1) obviate the need for Netting Members to pre-fund their FICC liquidity requirements and (2) provide Netting Members the opportunity to deploy their balance sheet usage in other ways that they see fit.[19]

This is true for Bank Netting Members of the GSD. These Netting Members merely need to "footnote" this "contingent" liability. In comparison, non-bank Netting Members are required to "pre-fund" this liquidity requirement - in direct contradiction to FICC's statement – on an ongoing basis by obtaining a committed line of credit (or perhaps continuously rolling a 1-month term repo as the FICC suggests). Again, we believe this illustrates the discriminatory nature of the Proposed Rule Change.

Finally, we believe it is important to again highlight FICC's claim that:

- each Netting Member's CCLF requirement would be a function of the liquidity risk that each Netting Member's activity presents to GSD;[20]

In our second comment letter (the "Ronin Second Letter')[21] we state that this claim is false because half the Netting Membership presents no liquidity risk to the FICC.[22] Simply stated, the peak liquidity needs of half of the Netting Membership do not exceed the value of cash held in the Clearing Fund and, therefore, these firms do not present liquidity risk to the FICC. Yet smaller Netting Members are required by the Proposed Rule Change to subsidize the outsized liquidity risks posed by the largest Netting Members in a non-uniform way. The Proposed Rule Change imposes a discriminatory cost on smaller Netting Members because there is no ability to merely "footnote" this liability. The lack of clear compliance guidelines and contradictory advice about possible solutions such as the use of the 1-month term repo, do not give smaller Netting Members the information they need to determine the viability of those methods of compliance, the cost that will be incurred, or the effects on the overall market. It can reasonably be inferred that creating this type of environment will cause members to move to bilateral settlement or leave the market. This is detrimental to the market in that it reduces diversity, competition and activity which actually increases the risk during a financial crisis instead of reducing it.

In conclusion, we request that the Commission reject FICC's proposed rule change in favor of developing a new and better non-discriminatory liquidity plan. Smaller Netting Members should be exempted from the CCLF and the CCLF should only be imposed on the largest Netting Members that could possibly pose

[17] See First Ronin Letter p. 7
[18] See letter from Timothy J. Cuddihy, Managing Director, FICC, dated April 25, 2017, to Robert W. Errett, Deputy Secretary, Commission (the "First FICC Letter')
[19] See First FICC Letter p. 5
[20] See First FICC Letter p. 3
[21] See letter from Robert E. Pooler Jr., Chief Financial Officer, Ronin, dated June 19, 2017, to Robert W. Errett, Deputy Secretary, Commission ("Second Ronin Letter")
[22] See Second Ronin Letter p. 2

a systemic threat to the FICC. We thank the Commission for considering our comments. If you should have any questions, please contact me via email at [redacted] or via telephone at [redacted]

Very truly yours,

Robert E Pooler Jr.
Chief Financial Officer
Ronin Capital, LLC

Other signatories on this comment letter:

Alan Levy, Managing Director
Industrial and Commercial Bank of China Financial Services, LLC