KGS-ALPHA CAPITAL MARKETS

Levent Kahraman
Chief Executive Officer

April 4, 2018

Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549
rule-comments@sec.gov

Re: Comments Regarding Proposed Rule Change and Advance Notice by Fixed Income Clearing Corporation ("FICC") to the Required Fund Deposit ("RFD") Calculation in the Government Securities Division ("GSD") Rulebook; Release Nos. 34-82588 and 82779; File Nos. SR-FICC-2018-001 and SR-FICC-2018-801

Dear Mr. Fields:

KGS-Alpha Capital Markets, L.P. ("***KGS***") respectfully submits that the margining calculation in the FICC GSD proposal referenced above (the "***Proposal***") be modified to provide for cross-margining of offsetting positions of members that participate in both GSD and the Mortgage-Backed Securities Division ("***MBSD***") ("***intra-DTCC cross-margining***").

KGS is a member of both FICC divisions and is an institutional dealer in fixed-income securities, focusing on mortgage-backed securities. KGS supports a strong FICC and recognizes the need for a robust RFD determination. We endorse the FICC's effort to update its risk modeling and its goal to make the system sounder with simplified margining. However, as described below, we believe that intra-DTCC cross-margining for common members that hold offsetting risk positions in GSD and MBSD is necessary to further the FICC's goal of more effectively analyzing and addressing risks presented by netting members' clearing portfolios.

KGS respectfully submits that not having such an intra-DTCC cross-margining process for positions in GSD and MBSD will have a distortive effect on GSD's margining system, thus forcing member firms to reduce their use of FICC GSD and, indeed, to reduce their positions cleared through GSD due to burdensome double charges. This will have the effect of reducing liquidity in the markets served by FICC. A good example of the use of position offsets is the U.S. Securities and Exchange Commission's ("***Commission***") own Rule 15c3-1, which has consistently recognized that offsets can be an appropriate part of a risk management process.

Incorporating a process for intra-DTCC cross-margining should not be burdensome. The FICC has already acknowledged its commitment to data sharing and cross-margining. FICC not only has access to the GSD and MBSD positions, it has a legal claim to the required clearing fund deposits made by members in both GSD and MBSD.

KGS also believes that the absence of intra-DTCC cross-margining as part of the Proposal will impose a disproportionate and adverse impact on all affected GSD members other than the very largest banks and dealers. Under Section 17A(b)(3)(I)[1] of the Securities Exchange Act of 1934 ("***Exchange Act***"), FICC GSD's rules must not impose a burden on competition that is not necessary or appropriate in furtherance of the purposes of the Exchange Act. The burdens on competition that would be imposed through the FICC Proposal are significant, and FICC does not address these issues in its Proposal. The Commission has consistently supported markets that are free and open to all competitors. This provides the greatest spreading of risk and is consistent with the purposes of the Exchange Act. Absent intra-DTCC cross-margining for common members in GSD and MBSD as part of the FICC Proposal, the Proposal cannot meet these goals.

KGS also believes that the Blackout Period Exposure Adjustment should not be implemented earlier than the GSD-MBSD cross-margining. Prior implementation could require an unnecessarily high interim RFD, potentially forcing members to incur avoidable costs and business disruption.

For the foregoing reasons, we respectfully request that the FICC Proposal be disapproved by the Commission in its current form.

Respectfully submitted,

Levent Kahraman

Chief Executive Officer

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[1] 15 U.S.C. 78q-1(b)(3)(I).