



January 28, 2021

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: Notice of Filing and Extension of the Review Period of an Advance Notice to Modify the Calculation of the MBSD VaR Floor to Incorporate a Minimum Margin Amount (SR-FICC-2020-804; Release No. 34-90834)

Dear Ms. Countryman:

The American Securities Association (ASA)¹ welcomes this opportunity to comment on the Fixed Income Clearing Corporation's (FICC) proposal regarding minimum margin requirements for FICC clearing members when calculating the VaR floor. ("Proposal") After a careful review of the Proposal and its likely impact on the mortgage-backed securities (MBS) market, the ASA believes the Securities and Exchange Commission (SEC) should decline to approve the Proposal.

As currently drafted, the Proposal would result in more, not less, volatility in the MBS market and would be particularly impactful on to-be-announced (TBA) trades which are a critical component of the mortgage market. Accordingly, we believe the FICC – working collaboratively with its clearing members – should further examine the volatility issues identified by the Proposal and determine whether alternative solutions are necessary.

The FICC states in the Proposal that the existing VaR model “did not respond effectively” and did not produce a 99 percent confidence level during the market volatility that arose in March and April of 2020 at the onset of the COVID-19 pandemic. Such a finding suggests that targeted improvements to the VaR model may be warranted to address any flaws that came to light during this period.

Instead, the Proposal would implement a blunt tool – the minimum margin amount (MMA)– that may not lead to an appropriate margin calculation during various market cycles. ASA members believe that if the MMA were implemented and after a future period of high volatility subsides, the MMA would effectively become the default requirement which would lead to unnecessarily high (and costly) margin levels during times of low or moderate volatility. This would be antithetical to the core purpose of the VaR model which is to determine margin levels by taking into account the unique risk characteristics of certain securities and market conditions.

¹ The ASA is a trade association that represents the retail and institutional capital markets interests of regional financial services firms who provide Main Street businesses with access to capital and advise hardworking Americans how to create and preserve wealth. The ASA's mission is to promote trust and confidence among investors, facilitate capital formation, and support efficient and competitively balanced capital markets. This mission advances financial independence, stimulates job creation, and increases prosperity. The ASA has a geographically diverse membership base that spans the Heartland, Southwest, Southeast, Atlantic, and Pacific Northwest regions of the United States.





While ASA members support having the appropriate stability for central counterparties like FICC, we are opposed to increases in margin requirements based upon models not calibrated properly and not isolated to significant price volatility events, as this can create more stress for both the TBA as well as the repo funding markets.

Another consequence of the MMA during low or moderate volatility is that the higher costs will lead to dealers having less incentive to hold and provide liquidity in the market should the need arise. Smaller dealers may choose to lower their costs or exit the market altogether. And, if fewer dealers are operating in this space, mortgage originators will have difficulty hedging their pipelines and that will result in higher costs to consumers. Thus, using the extraordinary events of March and April 2020 as the basis for overhauling FICC margin requirements would have further negative unintended consequences and other methods should be considered.

We note that the Proposal is largely void of any evidence or data regarding the economic and market impact of implementing the minimum margin amount. It also does not discuss the potential disproportionate costs that would be borne by small or mid-size FICC members that would have to comply with the requirements. We believe these matters need to be studied more fully before any changes to the VaR model are implemented.

We would strongly suggest that any changes that FICC takes inform market participants of what levels of volatility would trigger an increase in margin in every security it clears. We are not asking FICC to reveal the inner workings of its VaR formula, but we are suggesting that if market participants understand the levels of volatility that will cause margin increases and the amount of these increases as volatility rises, then sudden spikes in volatility may not trigger forced selling or other unnecessary market disruptions by market participants who need to meet their margin obligations. This kind of transparency would allow markets to function more efficiently as participants would understand what will be expected of them during market stress. Forced selling due to unexpectedly high increases in margin is extremely disruptive to the market and a reasonable means to avoid this dynamic should be considered as FICC and the SEC undertake reform.

For these reasons, we believe the SEC should decline to approve the Proposal and that the FICC should work with its clearing members to closely examine the current VaR model and assess whether any targeted reforms are necessary.

Sincerely,

Christopher A. Iacovella

Christopher A. Iacovella
Chief Executive Officer
American Securities Association

