



October 23, 2024

Honorable Gary Gensler
Chair
U.S. Securities and Exchange Commission
100 F Street N.E.
Washington, DC 20549

Re: Application of the Broker-Dealer Customer Protection Rule with Respect to U.S. Treasury Securities Clearing

Dear Chair Gensler:

The Securities Industry and Financial Markets Association (“SIFMA”) submits this letter to the Securities and Exchange Commission (“SEC”) in response to the SEC’s rule amendments concerning standards for clearing agencies handling U.S. Treasury securities (“covered clearing agencies”). As SIFMA members implement the rule amendments, ongoing dialogue remains essential to mitigate previously identified risks, including the risk of reduced liquidity if market participants decrease their activity or exit the market. This letter addresses issues and concerns related to Rule 15c3-3 encountered by SIFMA’s members during the implementation of the new rules.

I. The Reserve Formula Debit and Note H(b)(2)(i) of Rule 15c3-3a

The amendments permit customer margin deposited for U.S. Treasury securities at a covered clearing agency to be included as a debit in a broker-dealer’s reserve formula calculation, subject to certain conditions. This debit offsets credits in the reserve formula, freeing resources to meet customer margin requirements at the covered clearing agency.

To qualify for the offsetting debit, Note H(b)(2)(i) of Exhibit A to Rule 15c3-3 requires covered clearing agencies to calculate a separate margin requirement for each customer of a broker-dealer, with the broker-dealer delivering the customer’s margin to the clearing agency on a gross basis. SIFMA contends that the implementation of the new clearing standards, specifically the “collect gross/deliver gross” model, will discourage broker-dealers from onboarding smaller market participants who opt out of individual segregation due to cost concerns. Many market participants relying on FICC’s direct netting members for clearing U.S. Treasury transactions may choose to forgo individual segregation because of the high costs, particularly the \$1 million minimum cash margin requirement to participate in individual segregation.

As a result, FICC's direct participants will be unable to apply the reserve formula debit for these indirect participant accounts, leading to increased capital constraints for broker-dealers in meeting customer margin requirements at FICC. This situation could ultimately reduce market participation and liquidity undermining efforts to create a more inclusive and efficient Treasury market. To address these concerns, it may be necessary to revisit the \$1 million minimum cash margin requirement for segregated indirect participants or explore alternative solutions that support smaller participants while maintaining the integrity of the clearing process.

To resolve these issues, SIFMA recommends that FICC's direct netting members be allowed to include a reserve formula debit for margin collected from indirect participant accounts choosing omnibus rather than gross segregation at FICC, provided they meet specified asset or activity-based thresholds. This recommendation applies if the direct participant collects the clearing margin calculated by FICC, satisfies the margin requirements for these indirect participants at FICC, and segregates any remaining margin in accordance with Rule 15c3-3. Implementing this change would enhance liquidity, increase market participation, and effectively balance risk management with broader market engagement.

Based on the foregoing, SIFMA requests that the SEC issue guidance or grant exemptive relief to provide for a more practical clearing agency margining model under Note H(b)(2)(i), consistent with our comments in the preceding paragraph.

II. Posting Proprietary Cash Before Margin Collection and Note H(b)(1)(iii) of Rule 15c3-3a

Note H(b)(1)(iii) permits broker-dealers to use their own U.S. Treasury securities to meet customer margin requirements for cleared U.S. Treasury positions, addressing timing mismatches between margin delivery deadlines and customer payments. SIFMA believes the SEC may have inadvertently overlooked the potential benefits of allowing proprietary cash as an alternative interim solution for these timing mismatches.

Incorporating the use of proprietary cash, in addition to U.S. Treasury securities, during timing mismatches offers several advantages. Proprietary cash provides immediate liquidity and avoids the risks associated with value fluctuations, ensuring prompt and reliable margin fulfillment. It also is a more cost-efficient solution, especially for firms that do not maintain a reserve of U.S. Treasury securities. Maintaining such a reserve incurs costs and administrative burdens, whereas utilizing proprietary cash could streamline operations and reduce expenses.

SIFMA requests that the SEC issue interpretive guidance or grant exemptive relief clarifying that broker-dealers are permitted to use proprietary cash under similar conditions as those applied to U.S. Treasury securities and include a debit in the formula. This added flexibility would enhance operational efficiency and better align with margin collection practices at other clearing agencies.

III. Movement of Customer Collateral to a Covered Clearing Agency

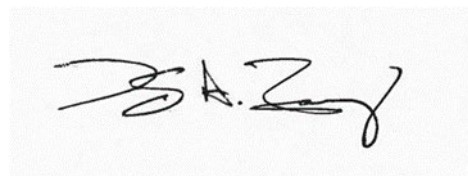
When broker-dealers post customers' securities—constituting fully paid or excess margin securities—to a covered clearing agency to meet customers' margin requirements for U.S. Treasury securities, a question arises whether this transfer affects the broker-dealer's ability to comply with its possession or control obligations with respect to such collateral.

The SEC staff has previously confirmed that transferring customers' fully paid and excess margin securities to secure margin obligations at a registered clearing agency satisfies the control requirement under Rule 15c3-3. SIFMA requests similar clarification, asserting that posting customers' securities to a covered clearing agency for U.S. Treasury securities margin obligations does not constitute a possession or control deficiency under Rule 15c3-3. We seek confirmation that these securities remain under the broker-dealer's control for compliance purposes.

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Thank you for this opportunity to provide you with our concerns and request for interpretive and exemptive relief. We would be pleased to discuss our views or provide any additional information. Please contact me at 202-962-7386 or Mark Attar of Stradley Ronon Stevens & Young, LLP, who assisted in the preparation of this letter, at 202-419-8406, if you have any questions.

Regards,

A handwritten signature in black ink, appearing to read "K. Zambrowicz", is centered within a light gray rectangular box.

Kevin Zambrowicz
Deputy General Counsel (Institutional) & Managing Director
SIFMA

Cc: The Hon. Hester M. Peirce, Commissioner
The Hon. Caroline A. Crenshaw, Commissioner
The Hon. Mark T. Uyeda, Commissioner
The Hon. Jaime Lizárraga, Commissioner

Haoxiang Zhu, Director, Division of Trading and Markets
Michael Macchiaroli, Associate Director, Division of Trading and Markets
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