IDTA

March 9, 2021

SUBMITTED VIA AGENCY WEBSITE

The Honorable Mark A. Calabria
Director
Federal Housing Finance Agency
400 Seventh Street SW
Washington, D.C. 20219

Re: Enterprise Liquidity Requirements (RIN 2590-AB09)

Dear Director Calabria:

The Independent Dealer and Trader Association ("IDTA")[1] appreciates the opportunity to respond to the Federal Housing Finance Agency's ("FHFA") proposed rule on Enterprise Liquidity Requirements (the "Proposed Rule").[2] Ensuring that Fannie Mae and Freddie Mac (the "Enterprises") have sufficient levels of liquid assets is critical to guaranteeing that they are able to fulfill their statutory mandates to provide liquidity, stability, and affordability to the U.S. housing market.

With those statutory mandates in mind, there is one specific aspect of the Proposed Rule that would disrupt market liquidity and stability: the prohibition on lending cash through repurchase agreements secured by agency mortgage-backed securities ("MBS").[3] The Enterprises engage in repo transactions through the Fixed Income Clearing Corp ("FICC"), a central clearing counterparty. The FICC membership process is extremely comprehensive, and all members are required to post significant margin daily. The U.S. Securities and Exchange Commission ("SEC") supervises the FICC, and the Federal Reserve Board also provides oversight as a result of FICC's designation as a Systemically Important Financial Market Utility.

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[1] The IDTA was formed to create a forum for independent dealers and traders to discuss and consider the impact of market operational issues on their industry sector and to advocate for constructive solutions that promote the liquidity and efficiency of capital markets. The objective of the IDTA is to form an interactive line of communication with regulators and other relevant policy makers, with particular emphasis on the Securities and Exchange Commission, the Treasury Department, and the Federal Reserve Bank of New York. The IDTA is composed of seven organizations registered as broker-dealers or futures commission merchants (or affiliates of such organizations) that are not affiliated with a bank holding company. For additional information, visit IDTA's web site: www.idtassoc.com/.

[2] Enterprise Liquidity Requirements, 86 Fed. Reg. 1306 (Jan. 8, 2021), *available at* https://www.govinfo.gov/content/pkg/FR-2021-01-08/pdf/2020-28204.pdf (hereinafter "Proposed Rule").

[3] *Id.* at 1312.

Investing in MBS repo is in line with the mandates in the Enterprises' charters. The reference of "wrong-way risk" as being a major factor in this Proposed Rule does not recognize that the Enterprises are cash providers in the MBS repo market and that the cash invested is fully collateralized with several intraday margin requirements fulfilled by the collateral providers each day on a mark to market basis. Additionally, the suggestion that the MBS repo securities are not high-quality liquid assets ("HQLA") is incorrect. Agency MBS is level 2A HQLA and is subject to a 15% haircut according to the Liquidity Coverage Ratio ("LCR").[4] The Proposed Rule also mentions that U.S. Treasury securities are easily converted into cash,[5] but fails to recognize that MBS repo performs the same way. In fact, the risk sensitivities of both U.S. Treasury securities and MBS are aligned.

U.S. Treasury securities and MBS repo have a wide range of counterparties and participants, including primary dealers, independent broker dealers, global banks, 2a-7 funds, and a myriad of other participants. The Proposed Rule's provision that would prevent the Enterprises from transacting in their own MBS could affect the marketplace to MBS investors. It would substantially disrupt the liquidity, stability, and affordability of MBS repo, and it incorrectly identifies MBS as non-HQLA.

The IDTA feels that this aspect of the Proposed Rule would have a negative impact on the funding markets and should not be included in the final rule.

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The IDTA thanks the FHFA for considering our comments. Should you have any questions, please contact the undersigned.

Sincerely,

James Tabacchi
Chairman
Independent Dealer and Trader Association

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[4] *See* Liquidity Coverage Ratio 30.43.

[5] *See* Proposed Rule, *supra* note 2, at 1311.