P I M C O

Via Electronic Submission

February 7, 2011

Mr. David A. Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Re: Effect of Block Trade Reporting Requirements on End-Users of Swaps (Notice of Proposed Rulemaking (the "**Release**"): Real-Time Public Reporting of Swap Transaction Data. RIN 3038-AD08)

Dear Mr. Stawick:

Pacific Investment Management Company LLC ("**PIMCO**") appreciates the opportunity to comment on the Commodity Futures Trading Commission's ("**CFTC's**") proposal for the real-time post-trade reporting of swaps.

PIMCO is a global investment management firm that serves an array of clients and manages retirement and other assets that reach more than 8 million people in the U.S. and millions more around the world. Our clients include state, municipal, union and private sector pension and retirement plans, educational, foundations, endowments, philanthropic and healthcare institutions. PIMCO manages assets in a fiduciary capacity on behalf of its clients and does not invest for its own account.

A goal of the CFTC's proposal for post-trade reporting of swaps is to increase transparency and liquidity in the swaps market for the protection of the ultimate "end-users." In its capacity as an investment manager for pension plans, mutual funds and other vehicles comprising thousands of individual end-users, PIMCO supports the transparency of swap transactions, including instantaneous post-trade reporting of swap transaction details to regulators as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act ("**Dodd-Frank**"). However, we emphasize that the desire for increased transparency must be balanced against countervailing concerns about market impact. Therefore, PIMCO urges the CFTC to reconsider various aspects of its swaps reporting proposal because PIMCO believes that in its current form, the proposal may have the unintended consequence of increasing costs for the long-term investors the proposal seeks to protect.

In particular, PIMCO believes that the CFTC's current proposal is too narrow in its large notional swap and block trade definition and does not provide a sufficient time delay for reporting of such trades to allow counterparties to provide sufficient liquidity without passing on wider bid-ask spreads to end-users. In addition, PIMCO believes that the information required as part of real-time trade reporting, in conjunction with the short time delays described above, will provide critical information to short-term speculators before dealers and end-users are able to hedge their risk. These shortcomings would result in significant adverse market impact including increased costs and reduced liquidity to the long-term investors and end-users that Dodd-Frank's real-time reporting provisions are meant to serve.

The CFTC's proposed rules would increase costs for end-users of swaps.

It is common for corporations, banks, official institutions and institutional investors to seek to manage large risks through one or more block transactions with swap dealers. In this context, a "block" transaction refers to a privately negotiated large-size swap transaction executed on a bilateral basis away from an exchange floor (or swap execution facility). The benefit of a block transaction is that it permits market participants to execute large orders at a single price without signaling to the market important information about their position or trading strategy.

There is a well-understood need for market participants to be able to conduct trades in this manner to avoid potentially disruptive pricing that could result if the block trade details are known too soon. This is critical because the swap dealer that acts as counterparty to the block transaction typically is willing to enter into the block *only* if it is reasonably sure that it can adequately hedge its economic exposure. The price at which the swap dealer will offer the block to the end-user necessarily will reflect the risk that bid-ask spreads will widen a result of prematurely communicating block transaction information to the market.

Accordingly, if the real-time reporting requirements for block trades are implemented as proposed, we believe that swap dealers will not have sufficient time to manage their risk before their proprietary trade information is released to the market, thereby leading to increased costs to end-users. The proposed nearly instantaneous public reporting of this information to the market will allow short-term investors to anticipate the hedging strategies of the swap dealer, which will drive up the cost of the hedging transaction. The swap dealer, in turn, will refuse to absorb these higher costs, and instead, seek to be compensated by increasing the bid-ask spread of the block transaction to end-users with whom the dealer is transacting. This will lead to wider bid-ask spreads and lower liquidity for exactly those end-users for whom the CFTC is trying to *reduce* costs and will result in market disruptions as those reporting requirements are implemented. As CFTC Commissioner Chilton recently remarked, dealers must have time to "lay off their risk and effectively hedge" "because if they can't, ultimately consumers pay for it."[1] We also expect that algorithmic and "black box" systems will be designed specifically to exploit the premature public reporting of large block transaction information, which we believe is contrary to the spirit of the proposal.

While we do not take issue with the CFTC's overall view that increased transparency leads to a more competitive and liquid market, with lower overall costs for end-users, we believe that this principle needs to be balanced with the need to permit large transactions to occur in a way that does not distort market prices and raise costs for end-users.

Anonymity should be retained, real-time public reporting delays should be increased, and minimum block sizes should be reduced to avoid higher costs to end-users.

PIMCO believes that protecting the identity of swap market participants would help to reduce costs to end-users. We believe that the proposed threshold for block trades that do not have to report specific trade details should be reduced from the current $250 million threshold. The reason for this is two-fold: foremost, providing only general details to the marketplace for very large transactions ($50 million plus) would be instrumental in helping to mitigate premature block transaction reporting and therefore avoiding increased bid-ask spreads for end-users. Second, depending on the market, a $250 million notional trade can range from a moderate size trade to a very large trade. For instance, a $250 million, 30 year swap is roughly equivalent to a $2 billion, 2 year swap. Because risk is a function of both size and duration in the swaps market, the CFTC's rule, as currently proposed, will result in inequitable economic treatment in reporting, depending on how swaps traders structure their transactions.

We believe that the CFTC can accomplish its reporting and transparency objectives by adopting an approach that takes into account the liquidity of the relevant products. For example, in the case of interest rate swaps, the reporting threshold should be as follows: $250 million for swaps of 0 – 2 years, $200 million for swaps of 2 -5 years, $100 million for swaps of 6 – 10 years, $75 million for swaps of 11-20 years, and $50 million for swaps over $20 million. Similar tiers should be established for different categories of swaps. As swaps become more standardized, the CFTC could revisit these limits.

We believe that our proposal is consistent with Section 727 of Dodd-Frank, which provides that the anonymity of swap counterparties should be preserved through the real-time reporting process. This approach also would minimize market disruptions and curb distorted pricing caused by premature reporting of block transaction details.

[1] Transcript of November 19, 2010 CFTC Open Meeting, Commissioner Chilton.

PIMCO also believes that, given current levels of liquidity in swaps markets, the 15-minute public reporting delay for block trades under the CFTC's proposed rule does not give end-users, buy-side firms (who are representing end-users) or dealers enough time to manage risk through hedging transactions. Without sufficient time to successfully hedge a block trade, market speculators will be able to capitalize on these participants' need to manage their risks as described above, thereby ultimately increasing costs for end-users. Ideally, the CFTC would consider different time delays for public reporting for different securities, depending on liquidity, level of customization and size of the market. If the CFTC were to adopt a one-size-fits-all approach with regard to the time delay, PIMCO believes that a 24-hour delay in reporting of block trades would be necessary. Further, if the CFTC decides to impose block position reporting in a timeframe of less than 24 hours, we encourage the CFTC to phase-in reporting requirements over an extended period (18-24 months) in order to give the dealers and buy-side firms sufficient opportunity to reduce any potential market impacts.

Additionally, under the proposed rule, the relevant registered swap data repository (an "SDR") must set the appropriate minimum block size for each swap instrument as the greater of the numbers derived from a "distribution test" and a "multiple test." The distribution test, in particular, requires the SDR to establish a distribution curve of transaction sizes in the relevant swap category and set the minimum size of a block such that it is greater than 95% of transaction sizes.

PIMCO believes this approach should be modified; under the distribution test, a more appropriate threshold for a block trade would be one that is greater than 2/3rds of all transaction sizes, as this captures the types of trades that are more likely to cause price distortions if the details are immediately known. Setting minimum block sizes too high – as they are in the current proposal –may cause end-users to either face the higher cost of trading large size transactions or choose not to enter into these transactions and therefore pass on to consumers the costs of unhedged risks.

The modifications to the proposed rules outlined herein will further our shared objective of increasing transparency in the swap market while reducing the likelihood of adverse market impact.

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PIMCO thanks the Commission for giving it the opportunity to comment on the proposed real-time reporting rules and for the Commission's consideration of PIMCO's views concerning real-time report and block trading. If you have any questions, please do not hesitate to call me at (949) 720-6000.

Sincerely,

Douglas M. Hodge

Douglas M. Hodge
Managing Director, Chief Operating Officer
Pacific Investment Management Company LLC