



February 7, 2011

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

Re: Real-Time Public Reporting of Swap Transaction Data (RIN 3038–AD08)

Dear Mr. Stawick:

The Wholesale Market Brokers' Association, Americas ("WMBAA" or "Association")¹ appreciates the opportunity to provide comments to the Commodity Futures Trading Commission ("CFTC" or "Commission") on the proposed rules related to the real-time public reporting of swap transaction data ("Proposed Rules")² under the Commodity Exchange Act ("CEA").

Summary of Response

As the Commission contemplates an appropriate regulatory regime for reporting and dissemination of swap information, the WMBAA believes it is incumbent upon the Commission to follow the direction given in Section 2(a)(13)(E) of the CEA, which requires that the Commission's rule providing for the public availability of swap transaction and pricing data contain provisions that take into account whether public disclosure will materially reduce market liquidity. The WMBAA, as an association representing the largest inter-dealer brokers in OTC markets, believes that the impact of these rules on market liquidity is highly dependent on how the policy governing large block trading is finalized. If the policy governing block trades does not properly define such a trade, the WMBAA remains very concerned that possible rules related to the calculation of a block trade threshold and trade reporting could negatively impact market liquidity, disturbing businesses' ability to hedge commercial risk, to appropriately plan for the future and, ultimately, unnecessarily inhibit economic growth and competitiveness.

The WMBAA is pleased to offer its comments related to: (i) the importance of a harmonized regulatory regime for execution facilities; (ii) methods to calculate block trade thresholds; (iii) appropriate entities to calculate and publish block trade thresholds; and (iv) time delays for post-trade dissemination of block trade information.

¹ The WMBAA is an independent industry body representing the largest inter-dealer brokers ("IDBs") operating in the North American wholesale markets across a broad range of financial products. The WMBAA and its member firms have developed a set of *Principles for Enhancing the Safety and Soundness of the Wholesale, Over-The-Counter Markets*. Using these *Principles* as a guide, the WMBAA seeks to work with Congress, regulators, and key public policymakers on future regulation and oversight of over-the-counter ("OTC") markets and their participants. By working with regulators to make OTC markets more efficient, robust and transparent, the WMBAA sees a major opportunity to assist in the monitoring and consequent reduction of systemic risk in the country's capital markets.

² See Real-Time Public Reporting of Swap Transaction Data, 75 Fed. Reg. 76,140 (December 7, 2010).

Importance of Harmonized Regulatory Regime

Several differences exist between the SEC’s Proposed Regulation SBSR – Reporting and Dissemination of Security-Based Swap Information,³ and the CFTC’s Proposed Rule. While the WMBAA does not strongly support one Commission’s proposed approach in its entirety over the other, as entities likely to register as swap execution facilities (“SEFs”) with the CFTC and security-based SEFs with the SEC, respectively, it is important that the framework for block trade calculation, reporting, and dissemination are consistent between the two agencies and do not unreasonably burden market participants with duplicative compliance requirements. The WMBAA does, however, believe that the framework ultimately adopted should provide sufficient discretion for market participants. In this regard, the WMBAA believes the CFTC’s Proposed Rules are more prescriptive when compared with the SEC’s proposed rules.

The WMBAA encourages the use of block trade calculation provisions that provide deference to the SEF in determining what constitutes a block trade, which is most explicitly suggested in the SEC’s proposed rules for security-based SEFs.⁴ The SEC’s proposed rules define the term block trade in a way that gives each security-based SEF the authority to set the criteria and formula for determining what constitutes a block trade, as long as such criteria and formula comply with the core principles relating to security-based SEFs (until the SEC sets the requisite criteria).⁵ This approach allows the necessary time and flexibility for the markets to establish the appropriate criteria and formula based on actual trading on security-based SEFs in each security-based swap category and should be considered by the Commission for its corresponding rules.

Discussion of Proposed Rules

As interdealer brokers involved in the formulation and execution of large derivatives transactions between swap dealers and major swap participants, the distinction between block and non-block trades is vital to ensure OTC derivatives markets can continue to provide liquidity to and be a source for risk mitigation for end-users.

It is important that the Commission recognize that OTC derivatives markets are different than financial markets that have significant retail participation.⁶ While the relationship between exchange-

³ See Regulation SBSR—Reporting and Dissemination of Security-Based Swap Information, 75 Fed. Reg. 75,208 (December 2, 2010).

⁴ See Registration and Regulation of Security-Based Swap Execution Facilities, Release No. 34-63825, File No. S7-06-11. Available at <http://www.sec.gov/rules/proposed/2011/34-63825.pdf>.

⁵ See *id.* at 390. (“The term block trade has the same meaning as § 242.900 (published at 75 FR 75208, Dec. 2, 2010), provided however that until the Commission sets the criteria and formula for determining what constitutes a block trade under § 242.907(b), a security-based swap execution facility may set its own criteria and formula for determining what constitutes a block trade as long as such criteria and formula comply with the Core Principles relating to security-based swap execution facilities in section 3D of the Act (15 U.S.C. 78c-4) and the rules and regulations thereunder.”).

⁶ See, e.g., Comments from Yuhno Song, Merrill Lynch, (“I think one of the distinctions we have is a market that may be more smaller in retail based versus a market that is with far small number of participant and that’s institutional based.”) Public Roundtable to Discuss Swap Data, Swap Data Repositories, and Real Time Reporting, September 14, 2010 (“Roundtable Transcript”) at 332-333. Available at: <http://www.cftc.gov/ucm/groups/public/@swaps/documents/file/derivative18sub091410.pdf>.

traded and OTC markets generally has been complimentary, as each market typically provides unique services to different trading constituencies for products with distinctive characteristics and liquidity needs, the nature of trading liquidity in the exchange-traded and OTC markets is often materially different. Liquidity is the degree to which a financial instrument is easy to buy or sell quickly with minimal price disturbance. The liquidity of a market for a particular financial product or instrument depends on several factors, including the parameters of the particular instrument, including tenor and duration, the number of market participants and facilitators of liquidity, the degree of standardization of instrument terms, and the volume of trading activity.

Highly liquid markets exist for both commoditized, exchange-traded products, and the more standardized OTC instruments, such as the market for U.S. Treasury securities, equities, and certain commodity derivatives. Exchange-traded markets provide a trading venue for fairly simple and commoditized instruments that are based on standard characteristics and single key measures or parameters. Exchange-traded markets rely on relatively active order submission by buyers and sellers and generally high transaction flow. These markets allow a broad base of trading customers meeting relatively modest margin requirements to transact standardized contracts in a relatively liquid market. As a result of the high number of market participants and the relatively small number of standardized instruments traded, liquidity in exchange-traded markets is relatively continuous in character.

In comparison, many swaps markets feature a broader array of less-commoditized products and larger-sized orders that are traded by fewer counterparties, almost all of which are institutional and not retail. Trading in these markets is characterized by variable or non-continuous liquidity. Such liquidity can be episodic, with liquidity peaks and troughs that can be seasonal (*e.g.*, certain energy products) or more volatile and tied to external market and economic conditions (*e.g.*, many credit, energy, and interest rate products).

As a result of the episodic nature of liquidity in certain swaps markets combined with the presence of fewer participants, the WMBAA believes that the CFTC and SEC need to carefully structure a clearing and reporting regime for block trades that is not a “one size fits all” approach, but rather takes into account the unique challenges of fostering liquidity in the broad range of swaps markets. Such a regime would provide an approach that permits the execution of larger transactions without unnecessary regulatory burdens, and does not materially reduce market liquidity.

Formulation of Block Trade Threshold

Section 43.5(g) of the Proposed Rules describes the procedure and calculations that a registered swap data repository (“SDR”) must follow in determining the appropriate minimum block size. Specifically, the Proposed Rules would require a registered SDR to set the appropriate minimum block size at the greater resulting number of each of the “distribution test” and “multiple test.”⁷

⁷ See 75 Fed. Reg. at 76,161.

Distribution Test

The distribution test would apply the “minimum threshold” to the “distribution of the notional or principal transaction amounts” and would require a registered SDR to create a distribution curve to see where the most and least liquidity exists, based on the notional or principal transaction amounts for all swaps within a category of swap instrument. Under this proposed approach, a registered SDR must first determine the distribution of the rounded notional or principal transaction amounts of swaps and then apply the minimum threshold to such distribution. The Proposed Rules describe the “minimum threshold” as a notional or principal amount that is greater than 95% of transaction sizes in a swap instrument or category during the period of time represented by the distribution of the notional or principal transaction amounts.

Multiple Test

The multiple test would require a registered SDR to multiply the “block multiple” by the “social size” to determine the appropriate block threshold for each swap instrument. The Commission recognizes that the social size for a swap varies by asset class, tenor, and delivery points. Once the appropriate social size is determined, the registered SDR must then apply the block multiplier, currently proposed to be five. The resulting product would be the number that the registered SDR compares to the resulting number from the distribution test, the greater of which would be the appropriate minimum block size for such swap instrument.⁸

While the WMBAA believes that each asset class and each swaps instrument has a threshold amount that could be calculated and used to distinguish between typical and block trades, its primary concern is that the block trade exceptions be individually set for the unique liquidity requirements of the broad range of swaps instruments. Appropriate threshold levels will ensure that the process of completing a block trade is appropriately defined and trading may continue without adversely impacting market participants’ ability to place, exit, or hedge their trades. As other industry participants have noted, academic studies on the impact of transparency rules in major markets have found evidence of an adverse impact of transparency in a range of markets.⁹ The WMBAA urges the Commission to implement a flexible, appropriate regime that will provide increased transparency without impairing the liquidity currently found in OTC derivatives markets.

With respect to block trade thresholds, while the appropriate threshold amount will differ by asset class and instrument, the notion of a block trade involves more than merely the size of a transaction. WMBAA member firms have witnessed an evolution in interdealer markets with the development of a process referred to as “work-up.” In this model, once a price is agreed for trading, the resultant trade is reported to market participants and they are offered the opportunity for a brief, pre-set period of time to “join the trade” by placing a firm bid or offer that is characterized by only two variables (the quantity and whether the order is a “buy” or “sell” order). This results in an increase

⁸ See *id.* at 76,162.

⁹ See International Swaps & Derivatives Association and the Securities Industry and Financial Markets Association, “Block Trade Reporting for Over-the-Counter Derivatives Markets,” January 18, 2011 (Citing Canadian stock markets, London Stock Exchange, and future exchanges). Available at <http://www.isda.org/speeches/pdf/Block-Trade-Reporting.pdf>.

in liquidity at the most recently established market price. Work-up enables traders to assess the markets in real-time and make real-time decisions on trading activity, without the fear of moving the market one way or another. It is vital that any block trade calculation recognize the role work-up plays in forming liquidity. This is done to allow the market to find the appropriate pricing levels to optimally complete the transaction without prematurely causing the market impact of a large block trade. During the “work up” or “join the trade” period, all market participants have knowledge that a trade is taking place and are welcome to participate in this transparent process. However, as the initiating trade and other trades that take place are not fully complete until the end of the work-up period, and may result in both block and non-block trades, the reporting of the amounts executed during this process should not be done until the short work-up period expires.

The WMBAA believes it is appropriate to provide regulators with necessary market information for oversight purposes, but the public dissemination of incremental activity that would otherwise constitute a block trade could jeopardize identification of counterparties and materially reduce market liquidity, which does not comport with the reporting goals¹⁰ enumerated in the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”).¹¹

Congress recognized the importance of tailored block trade thresholds specific to an asset class and instrument.¹² The WMBAA advocates, as an example, a tiered solution for swap classification and reporting. The first tier would include all “social” size trades, which must be reported immediately to market participants. The second tier would include trades that are a certain multiple of the “social” size, dependent on the maturity, underlying credit, and frequency of recent transactions in the specific instrument. Each of these transactions would be reported to a registered SDR within an appropriate time after trade execution. This, the WMBAA believes, would be acceptable to market participants because it would be less disruptive to their ability to place, hedge or exit positions. Finally, the WMBAA would suggest a third tier for trades greater than twice the amount of the block trade threshold, reported with an indication that an extremely large block trade was executed.

Such a reporting regime would ensure market participants retain a level of transparency acceptable to successful trading. It is important to distinguish between public reporting to market participants and regulatory reporting through the SDR, which would be privy to complete trade information. By identifying an appropriate social size, the Commission would encourage additional market participants to post prices and provide liquidity on electronic platforms. This, in turn, would support the Commission’s objective of increasing the number of market makers and bringing greater transparency into the swaps markets.

¹⁰ CEA Section 2(a)(13)(E) (“With respect to the rule providing for the public availability of transaction and pricing data for swaps . . . , the rule promulgated by the Commission shall contain provisions . . . (iv) that take into account whether the public disclosure will materially reduce market liquidity.”).

¹¹ Pub. L. No. 111–203, H.R. 4173.

¹² Statement of Senator Blanche Lincoln (“The committee expects the regulators to distinguish between different types of swaps based on the commodity involved, size of the market, term of the contract and liquidity in that contract and related contracts, i.e; for instance the size/dollar amount of what constitutes a block trade in 10-year interest rate swap, 2- year dollar/euro swap, 5-year CDS, 3-year gold swap, or a 1-year unleaded gasoline swap are all going to be different.”). Senate Congressional Record S. 5921, July 15, 2010.

Block Trade Calculation and Publication

Section 43.5(g) of the Proposed Rules would require registered SDRs to calculate the appropriate minimum block size for swaps for which such registered SDR receives data in accordance with Section 2(a)(13)(G) of the CEA. The appropriate minimum block sizes for each swap instrument must be the greater of the resulting number derived from the “distribution test” and the “multiple test.” If there is only one registered SDR for a particular asset class, that registered SDR will have to calculate the appropriate minimum block size. In the event that there are multiple registered SDRs for an asset class, and therefore multiple registered SDRs will accept swaps for a particular category of swap instrument, the Commission will prescribe how the appropriate minimum block size should be calculated in a way that accounts for all of the relevant data.¹³

Proposed Section 43.5(h) provides that after an “appropriate minimum block size” is established by either a registered SDR or by a Commission-prescribed method, a swap market must set the “minimum block trade size” for those swaps that it lists and wishes to allow block trading, by referring to the appropriate minimum block size (equal to or greater than the SDR threshold) that is posted on a registered SDR’s internet website (along with the precise methodology and complete data set used by the SDR for calculating each swap) for the swap instrument category for such swap.

Swaps Standards Advisory Committee

The WMBAA believes that it is necessary to consider this more complete scope of information in calculating block trade thresholds that are truly appropriate for swap markets. The WMBAA therefore proposes the formation of a block trade standards setting advisory committee (the “Swaps Standards Advisory Committee”) made up of recognized experts and representatives of registered SDRs and SEFs to make recommendations to the Commission for appropriate block trade thresholds for swaps.

The WMBAA recommends that the Commission consider the role of existing advisory committees, such as the Agricultural Advisory Committee, Global Markets Advisory Committee, Energy and Environmental Markets Advisory Committee, and the Technology Advisory Committee, as a model for receiving market participant input and recommendations related to regulatory and market issues concerning block trades on swaps. Recent Commission rulemakings in agricultural commodities¹⁴ and co-location¹⁵ have benefitted greatly from industry input on these advisory committees. While the Commission is authorized under the Dodd-Frank Act to establish block trade standards on its own, and possesses the requisite knowledge and experience in futures markets, the WMBAA believes that a Swaps Standards Advisory Committee, similar to the above-referenced advisory committees, could provide the Commission with meaningful statistics and metrics from a broad range of contract markets, SDRs and SEFs to be considered in any ongoing rulemakings in this area.

The Swaps Standards Advisory Committee would work with the Commission to establish and maintain written policies and procedures for calculating and publicizing block trade thresholds for all

¹³ See 75 Fed. Reg. at 76,160.

¹⁴ See Agriculture Commodity Definition, 75 Fed. Reg. 65,586 (October 26, 2010).

¹⁵ See Co-Location/Proximity Hosting Services, 75 Fed. Reg. 33,198 (June 11, 2010).

swaps reported to the registered SDR in accordance with the criteria and formula for determining block size as specified by the Commission. The Swaps Standards Advisory Committee would also undertake market studies and research at its expense as is necessary to establish such standards. This arrangement would permit SEFs, as the entities most closely related to block trade execution, to provide essential input into the Commission's block trade determinations and work with registered SDRs to distribute the resulting threshold levels to SEFs. Further, the proposed regulatory structure would reduce the burden on SDRs, remove the possibility of miscommunication between SDRs and SEFs, and ensure that SEFs do not rely upon dated or incorrect block trade thresholds in their trade execution activities.

The WMBAA supports the notion that the Commission should require registered SDRs to self-certify determinations of the appropriate minimum block size for swap instruments. SDRs should be subject to certification by the Commission (or the Swaps Standards Advisory Committee) and be required to display on their website the precise calculation of every block size (including the complete data set used for the calculation).

The WMBAA also believes it is important for the Commission to recognize the potential for abuse of the block trade calculation by an SDR that operates an affiliated SEF or designated contract market. The WMBAA believes that the Commission must authorize a Swaps Standards Advisory Committee to insure that the block facility serves the public interest and is not abused to serve one or more narrow commercial interests.

Further, as the Commission recognizes, if there is more than one registered SDR for an asset class, it may prove difficult for the Commission to ensure that all registered SDRs calculate the same block trade thresholds for the same swap instruments. In comparison, one common regulatory organization responsible for facilitating SEF compliance with core principles will be uniquely situated to prevent the problem posed by multiple SDRs, which becomes further exacerbated if there are multiple registered SDRs in the same asset class, each with individual market data feeds that need to be aggregated to calculate block trade thresholds.

The determination of whether a swap transaction is a block trade should reflect a risk-weighted analysis, calculated on an instrument-by-instrument basis. This threshold should be updated at an appropriate time interval, taking into account the unique liquidity characteristics and challenges of the market in which the instrument trades. Any formulaic approach to computing the thresholds from trade size or other population parameters should reflect the number of participants in the market, the frequency of trading activity (daily, weekly, and monthly), and the average trade sizes and terms of the transactions.

The established block trade threshold could be subject to gaming, particularly if the market perceives the threshold to be arbitrarily determined. However, if the block threshold accurately captures the risk and liquidity parameters related to trading activity, then gaming would be ineffective and less likely to occur.

With respect to inter-affiliate transactions or trades resulting from portfolio compression, the WMBAA believes that if the block thresholds are appropriately calculated, market participation will increase, resulting in additional transparency and markets that better serve the public interest. The allocation or compression of trades that have already occurred are not open market transactions, and

it would be misleading if they were reported as open market transactions, giving the illusion of more liquidity than exists. These transactions should be reported as compression trades or allocations, so as not to be taken into account in any type of market liquidity or block trading equations.

Reporting of Block Trades

The Proposed Rules provide that a reporting party for any block trade must report the block trade transaction and pricing data pursuant to the rules of the swap market that makes that swap available for trading. Such reporting must occur as soon as technologically practicable after execution of the block trade and pursuant to the rules of the swap market. The Proposed Rules define the term “as soon as technologically practicable” to mean as soon as possible, taking into consideration the prevalence of technology, implementation, and use of technology by comparable market participants. The Commission recognizes that what is “technologically practicable” for one party to a swap may not be the same as what is “technologically practicable” for another party to a swap. The swap market that accepts the block trade must immediately send the block trade transaction and pricing data to a real-time disseminator, which must not publicly disseminate the swap transaction and pricing data before the expiration of the time delay described in Proposed Section 43.5(k).

As noted in previous letters, the WMBAA is supportive of trade reporting for all trades as soon as technologically practicable. The Association believes that all trade reporting, regardless of size, should be reported to the SDR. The WMBAA members each possess the technological capabilities to provide regulators with real-time electronic trade information for transactions executed in multiple financial markets.¹⁶

While the WMBAA believes that posting the full details of SEF-executed transactions to market participants should be at the core of the SEF obligations, the reporting obligations of the SEF should reflect the information that the SEF possessed at the time of the transaction. The SEF should not have the primary reporting obligations. The SEF may not necessarily be privy to all of the terms required to be reported in accordance with the Proposed Rules, such as, but not limited to: (i) contingencies of the payment streams of each counterparty to the other; (ii) the title of any master agreement or other agreement governing the transaction; (iii) data elements necessary to calculate the market value of the transaction; and (iv) other details not typically provided to the SEF by the customer, such as the actual desk on whose behalf the transaction is entered. Moreover, and quite critical, a SEF would not be in a position or necessarily have the capabilities to report life cycle event information. Indeed, even if a SEF were required to report the transaction details as the Proposed Rules require, something the Association does not think is advisable, it would likely take at least 30 minutes to gather and confirm the accuracy of that information.

Additionally, requiring the post trade reporting requirements to be “as soon as technologically practicable” may have a negative effect on liquidity, particularly with respect to larger transactions.

¹⁶ See, e.g., Comments from Shawn Bernardo, Tullett Prebon Americas Corp., representing Wholesale Markets Brokers Association, (“All of the brokers have the capability to report trades to the regulators in a timely fashion . . . as far as TRACE is concerned, we have a track record of reporting those trades efficiently, and we have the systems in place to do that, along with the various means . . . we can do that voice, we can do it electronically, we can do it as hybrid as far as the execution, but we send those trades electronically to them in a timely fashion.”) Roundtable Transcript at 227-228.

The reporting of larger transactions will likely cause participants to refrain from entering the market in situations where they might otherwise have entered, which will adversely impact the ability of the parties to the large transaction to mitigate the risks of that transaction by entering into separate, offsetting transactions. This could affect a party's ability to hedge its risks, and the exposure of that legitimate hedge will be diminished, resulting in fewer transactions and potentially widening spreads, which in turn will increase end-user costs.

Nevertheless, the WMBAA believes that trading counterparties with reporting obligations should be able to contract with a SEF to handle the reporting process without transferring their reporting obligations. This will put smaller counterparties with limited trade reporting technology in a less disadvantaged trading position to larger trading counterparties.

Real-Time Public Reporting of Block Trade Information

Time Delay

Section 43.5(k) of the Proposed Rules provides that the time delay for block trades must be no later than 15 minutes after the time of execution (the time that that a swap market receives the swap transaction and pricing data from a reporting party). After the 15 minute time delay has expired, the registered SDR or the swap market (through a third-party service provider) must immediately disseminate the swap transaction and pricing data to the public. By comparison, the SEC's proposed Regulation SBSR requires the immediate dissemination of most of the block trade data, with delayed dissemination for the trade's notional size and the transaction ID at a designated delayed time.

Based on the experiences related to the implementation of the Financial Industry Regulatory Authority's Transaction Reporting and Compliance Engine ("TRACE"), the WMBAA advocates a gradual implementation of the 15 minute delayed reporting requirement. When the TRACE reporting system was first introduced in 2002, there was a 75-minute delay for block trades. This time delay was reduced to 45 minutes the next year, and then reduced to current standard of 15 minutes in 2005. For the same reasons that the TRACE system required a delayed implementation period, the WMBAA would recommend the CFTC consider a similar phased-in approach to this requirement.

Further, the WMBAA would suggest that the CFTC consider fashioning a more flexible time delay regime that takes into account the block trade's asset class, the type of swap instruments, and the actual trade size. The time delay should not be an arbitrary period of time, but rather should reflect the period of time reasonably needed to hedge the block trade position without distorting the market. Each asset class will have varying regular trade frequency and block size thresholds. Accordingly, if implemented, the Commission may find that 15 minutes is too long of a time delay for markets which trade actively, and too short of a time delay for markets with see infrequent trading. To this end, an approach that factors in the relative size of a transaction compared to average trading volume and transaction activity for that specific asset class might be more appropriate to achieve the stated goals for the time delayed reporting provisions.

Information Publicly Reported

Section 43.5(l) of the Proposed Rules provides that all information in the data fields described in Section 43.4 and Appendix A to the Proposed Rules must be disseminated to the public for block trades and large notional swaps. The Proposed Rules list 23 data fields, which include date stamp, time stamp, whether the trade is cleared or uncleared, an indication of a block trade, the execution venue, the asset class, contract type, underlying asset, price notation, the unique product identifier, and the notional currency.

The WMBAA suggests that disseminating the specific notional amount of a block trade could jeopardize the anonymity of the counterparties to such trades, making counterparties less willing to engage in transactions of size. Further, the effect of having no delay, or only a short dissemination delay, for a block trade report that includes the full notional size will discourage market makers from committing capital and providing liquidity to the broader market. From a market perspective, there is little gained from disseminating full notional size information. Consistent with the experiences from the implementation of TRACE, which provides regulators with full trade information and publicly disseminates trades within a size range, the WMBAA believes the Commission should implement a similar public reporting methodology. This benefits market participants without exposing a trade's notional size, which protects counterparty anonymity, and preserves liquidity and price competition in the market.¹⁷ The Swaps Standards Advisory Committee would formulate and recommend to the Commission methodology for determining appropriate transaction information to be reported to the public. For example, the Swaps Standards Advisory Committee could recommend that amounts under block size were reported as soon as practicable while blocks were reported only as “block size+” after the appropriate delay for that particular instrument. As with block size itself, the amount reported to the public would be based on the observed number of bids and offers in a given instrument, the number of market participants, the amount of retail participation (if any), and the volume of trades executed.

Additionally, market participants will be wary of committing to larger sized transactions after knowing the rapidity in which other participants will gain knowledge of these trades, leading to less liquidity for the dealer market, and ultimately for end-user participants. The WMBAA also believes that the public dissemination of block trades, as proposed, will allow some market participants to infer the identity of the parties to the transaction and materially reduce market liquidity.

If a liquidity provider perceives greater danger in supplying liquidity, it will step away from providing tight spreads and leave those reliant on market maker liquidity with poorer hedging opportunities. From a market structure standpoint, liquidity “takers” benefit from liquidity providers acting in a competitive environment. The liquidity providers compete with each other, often deriving very small profits per trade from a large volume of transactions. By relying on their ability to warehouse trades and post capital to make markets and using their distribution and professional know-how to offer competitive prices to their customer base, market makers provide liquidity essential to fulfill

¹⁷ See 75 Fed. Reg. at 76,161. (“The Commission also considered the standards used by TRACE in setting its minimum threshold for block trades. In that regard, for trades with a par value exceeding \$5 million for investment grade bonds or \$1 million for noninvestment grade bonds (e.g., high-yield and unrated debt), TRACE publicly disseminates the quantity as “5MM+” and “1MM+”, respectively.”)

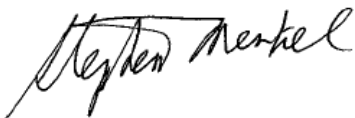
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the need of hedgers. For these reasons, having either no delay or a short dissemination delay will actually erode price discovery and the level of price efficiency in the market.

Conclusion

The WMBAA thanks the Commission for the opportunity to comment on the Proposed Rule. Please feel free to contact the undersigned with any questions you may have on our comments.

Sincerely,

A handwritten signature in black ink that reads "Stephen Merkel". The signature is written in a cursive, flowing style.

Stephen Merkel
Chairman