

February 7, 2011

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

Re: (1) Swap Data Repositories; and (2) Real-Time Public Reporting of Swap Transaction Data

Dear Mr. Stawick:

Markit¹ is pleased to submit the following comments to the Commodity Futures Trading Commission (“**CFTC**” or the “**Commission**”) on the following proposed rulemakings to implement certain requirements included in Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “**DFA**”):² (1) Proposed Rule on Swap Data Repositories (the “**SDR Regulation**”);³ and (2) Proposed Rule on Real-Time Public Reporting of Swap Transaction Data (the “**Real-Time Reporting Regulation**”)⁴ (collectively, the “**Proposed Rules**”).

1. Introduction.

Markit provides independent data, valuations and related products and services for swaps and security-based swaps (“**SBS**”) and across many other asset classes globally. Markit’s continually evolving products and services are widely recognized as valuable tools to reduce risk and improve operational efficiency in these markets. As a service and infrastructure provider to the global swaps markets, Markit supports the Commission’s objectives of increasing transparency and efficiency in the OTC derivatives markets and of reducing both systemic and counterparty risk.

Markit believes that while the Proposed Rules are aimed at important and valuable objectives, several modifications could capture significant opportunities to ensure a more efficient and timely implementation and to create market-based incentives for the creation of more easily monitored and transparent markets. In this letter, we wish to: (a) highlight some significant market consequences and impact of implementing the Proposed Rules as currently drafted; (b) identify potential deficiencies in the Proposed Rules; and (c) propose solutions and recommendations on how to more effectively implement Congressional intent in respect of the Proposed Rules.

2. Executive Summary.

Markit believes that: (i) the Real-Time Reporting Regulation should clarify that the data intended for real-time reporting purposes belongs to the applicable market participants and can only be used for other commercial purposes with the express permission of participants; (ii) standardization of pricing methodologies should be phased in over time and the CFTC should promote industry solutions to pricing normalization rather than

¹ Markit is a financial information services company with over 2,000 employees in North America, Europe and Asia Pacific. The company provides independent data and valuations for financial products across all asset classes in order to reduce risk and improve operational efficiency. Please see www.markit.com for additional information.

² Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203, 124 Stat. 1376 (2010).

³ Swap Data Repositories [FR Doc. 2010-31133], 75 Fed. Reg. 80898 (proposed Dec. 23, 2010).

⁴ Real-Time Public Reporting of Swap Transaction Data [FR Doc. 2010-29994], 75 Fed. Reg. 76140 (proposed Dec. 7, 2010).

implementation through a mandate on the participant level; (iii) the CFTC and the SEC should reconcile their reporting rules and regulations to ensure consistency of approach to similar products (e.g., a single name CDS contract should be reported consistently with the same set of standards as a broad index CDS); (iv) as part of its adoption of unique product identifiers, the Commission should first establish uniform taxonomy.

3. Real-Time Reporting.

a. Use of Real-time Data

Markit supports the requirement that real-time data be made available in machine-readable format, be capable of being downloaded, saved and/or analyzed, and agrees that it should be made available on a non-delayed basis to the public, media, and data vendors.⁵

However, we believe the following point should be clarified in the Real-Time Reporting Regulation:

The rules should be clear that data ownership does not transfer to a swap execution facility, a designated contact market or any other “regulated entity”. While data required for public reporting should be made available for such use, any other use of data, use of ancillary data or commercialization of any such data should only be done with the specific consent of the data owners. The SDR Regulation explicitly states that data submitted to a SDR, other than data subject to real-time public dissemination, may not be used for commercial purposes (with limited exceptions).⁶ Neither that rule nor the Real-Time Reporting Regulation, however, is clear as to how *real-time* data may be used.

While counterparties submitting data to a SDR are implicitly consenting to the required public dissemination for real-time reporting purposes, they should be neither implicitly nor explicitly deemed to be consenting to its distribution or use for any other commercial purposes. Thus, while data required for public real-time reporting should be available for real-time dissemination, any use of such data or commercialization of such data should only be done with the specific consent of the data owners, as is the case with all other information submitted to a SDR.⁷

b. Standardization of Swaps Pricing will Require a Standardized Approach

The real-time reporting rules proposed by the Commission and the SEC propose to require counterparties to “standardize” the pricing of swaps.⁸ Specifically, the Commission requires parties to report additional price notations where there are multiple premiums yields, spreads, or rates are characteristics of the swap,⁹ and requires additional price normalization when there are embedded options.¹⁰ These price notations must be relative to the “difference in payments between the underlying assets of the swap.”¹¹ The SEC requested comment on whether liquidity premiums that were included in the pricing of SBS block trades should and could be separately displayed.¹²

⁵ See Real-Time Regulation, 75 Fed. Reg. at 76173 (to be codified at 17 C.F.R. § 43.3(e)).

⁶ See SDR Regulation, 75 Fed. Reg. 80911.

⁷ See *id.* (“SDR Information [which excludes swap data subject to real-time public dissemination] may not be used for commercial or business purposes by the registered SDR or any of its affiliates.”).

⁸ See Real-Time Regulation, 75 Fed. Reg. at 76154-55; Regulation SBSR, 75 Fed. Reg. at 75234.

⁹ See Real-Time Regulation, 75 Fed. Reg. at 76154.

¹⁰ See *id.* at 76155 (“The Commission believes that requiring this field will increase transparency and price discovery across the swap markets, as it will allow for the easy comparison of price by market participants and the public.”).

¹¹ *Id.* at 76155.

¹² See Regulation SBSR, 75 Fed. Reg. at 75234.

Markit agrees in principle that the pricing and separate display of such factors could make publicly reported swaps prices more meaningful. However, we also believe that such standards cannot be established by January 2012, when parties will be expected to be in compliance, both in terms of the time given to implement the regime and the time provided for the reporting of each swap post execution. Furthermore, the proposed mechanism for the normalization of swaps pricing may not actually enhance transparency because every market participant will use different standards and assumptions for the pricing of these variables, resulting in a lack of comparability. The Commission acknowledges the fact that there are many different pricing conventions, but does not explain how *reporting* the variables upon which valuations are used in a given pricing convention will lead to standardized *conventions*.

The Commission therefore should, instead of creating such obligation for the reporting counterparties, simply allow the emergence of services in the marketplace that will identify, quantify, and report the value of any relevant factors to their users on the basis of the publicly reported information. This would allow the Commission to achieve its objective of creating meaningful transparency in a standardized and timely fashion.

4. Other Issues.

a. Ensuring the Consistency of Reporting Rules Between the CFTC and the SEC

Markit appreciates that the Commission is required to design rules that reflect the specifics of the asset classes and products. However, we caution the Commission against creating significantly different reporting requirements than those established by the SEC because this would likely confuse the market and risk frustrating the Commission's objective in increasing transparency in the swaps markets. Currently, however, the Commission's reporting rule differs from the SEC's rule in important respects.

For example, we believe that differences between the definitions of block trades and the related reporting requirements might lead to misleading impressions when market participants report index arbitrage trades. When a trade such as a Markit CDX.NA.IG (North American credit index) transaction coupled with opposite transactions in all of the 125 underlying single name Credit Default Swaps ("**CDS**") is publicly reported, the rules should not create a situation where the report gives the impression as if actual credit risk for the single names had traded.

Based on differences in the proposed definition and reporting regime for block trades, situations could arise where the index transaction was reported with a 15 minute delay, some of the single name CDS were reported immediately with volume, and the remaining single name CDS trades were reported immediately without volume. As this is only one of many such potential situations, Markit recommends that the Commissions aim to harmonize their real-time reporting requirements to the greatest extent possible, including block trade definitions and delays.

b. The Use of Codes For Transaction Reporting

The Real-Time Reporting Regulation encourages the development and use of Unique Product Identifiers ("**UPIs**"). Markit has extensive experience with designing and using product identifiers, as well as assessing the cost of producing and maintaining different types of identifiers.

Markit believes it is important to ensure that a UPI will achieve the Commission's primary objective(s) in calling for them. Our understanding that the Commission intends to use the UPI in the first instance as a way to facilitate aggregation of transaction information to make it possible to monitor participants' exposures and position limits. We believe a key requirement is to establish a standard *taxonomy*, or language, which would be used to describe the multitude of swap instruments that will be reported to an SDR. This taxonomy would

consist of a number of standard fields that describe each swap instrument type. Importantly, the number and type of fields will greatly vary by asset class and instrument within that asset class.

Once a standard taxonomy is defined, some of the fields within this taxonomy may lend themselves to be identified by a code, which uniquely identifies that particular field value. An example of this would be Markit RED codes, which are widely used to identify reference entities and/or reference obligations on CDS trades.

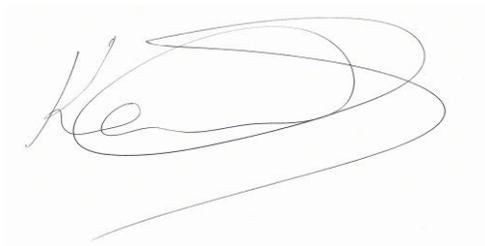
Based on our experience as a provider of identifiers that are used in the swaps markets and beyond, we believe that the creation and maintenance of any reliable and valuable identifier system will require a significant level of investment, experience, and maintenance effort. We therefore believe that any rule must permit product identifiers to be made available on a "commercially reasonable basis," and we are open to discussing how Markit RED codes could be made widely available for the purpose of reporting to and by SDRs.

Summary Conclusions

For the reasons explained above, we welcome the adoption of the SDR Regulation and the Real-Time Regulation and appreciate the opportunity to provide our comments on these two regulations.

We thank the Commission for considering our comments. In the event you may have any questions, please do not hesitate to contact the undersigned or Marcus Schuler at marcus.schueler@markit.com.

Sincerely,

A handwritten signature in black ink, appearing to read 'Kevin Gould', with a long horizontal flourish extending to the right.

Kevin Gould
President
Markit North America, Inc.