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

February 7, 2011

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

Dear Mr. Stawick:

UBS Securities LLC appreciates the opportunity to submit comments to the Commodity Futures Trading Commission (the "Commission") in response to the Commission's proposed rule on Real-Time Public Reporting of Swap Transaction Data[1] (the "Proposed Rule").

The Proposed Rule's immediate implementation of a "one-size fits all" approach to public reporting with its expansive scope of instruments to be reported and manner of reporting swap transaction data will negatively affect market liquidity across swap asset classes.[2] In particular, we are concerned that if swap transaction data for non-block and block trades[3] are fully and publicly disseminated too close to the time of execution, participants that wish to hedge such trades will have difficulty doing so since the market may move against them. The ability to anticipate and trade against hedging behavior – in particular that of market makers – will compel market makers to price in the expectation of such a move, increasing the cost of using instruments that are subject to immediate public dissemination, discouraging trading and reducing liquidity.

We believe that the real-time reporting requirements for swap instruments should be modified as follows:

- <u>Calibrating reporting requirements based on liquidity</u> – The Dodd-Frank Act requires the Commission to consider the effect of its real-time reporting rules on market liquidity.[4]

  We believe that the Commission should review historical transaction data and consult with market participants in determining the liquidity spectrum for each swap instrument, with liquidity determined based on both the average number of transactions per day (based on true risk transfer[5]) over the preceding six months and the number of market makers regularly trading the instrument.[6] Once the liquidity spectrum is understood, the swap instrument should be characterized in terms of liquidity buckets (e.g., a liquid bucket, a less liquid bucket and a least liquid bucket). In calibrating

[1] Real-Time Reporting of Public Reporting of Swap Transaction Data, 75 Fed. Reg. 76140 (Dec. 7, 2010).
[2] We also note that the definition of "block trade" adopted for purposes of real-time reporting will have implications for other requirements under the Dodd-Frank Act, including which transactions must be executed on a swap execution facility or designated contract market. <u>See</u> the Proposed Rule at 76145.
[3] In this letter, references to "block trades" include references to "large notional swaps", as defined in the Proposed Rule at § 43.2(f) and (l).
[4] See Section 727 of the Dodd-Frank Act (adding CEA § 2a(13)(E)(IV)).
[5] "True risk transfer" swap transactions should exclude transactions relating to portfolio compression or similar exercises, and should be limited to new transactions and novations which occur on the same terms (other than pricing, size and tenor) with respect to the same underlying asset or rate.
[6] We believe that swap instruments traded by an average of 6 or fewer market makers per month should be treated as illiquid and subject to public reporting only on a weekly basis.

the timing of public dissemination to liquidity, we would propose the following timing delays for non-block trades:

- A 90-minute delay between time of execution and public dissemination of transaction data for the liquid bucket.
- End-of-day or next-day public dissemination for the less liquid bucket.
- Weekly public dissemination for the least liquid bucket.

- Setting block trade size thresholds – We support the concept of using historical trade data to determine the threshold above which a swap would be considered a block trade. In particular, we support the Commission's proposed multiplier test, which would apply a multiplier to the standard or social trade size and periodically recalibrate the block trade size threshold based on recent trading activity.[7] We recommend, however, that the multiplier test be modified in the following ways:

  - We believe that the proposed multiplier (5x) is too high. Based on a review of our trading activity and that of our clients, pricing in the swap markets generally adjusts once notional amounts reach twice the social trade size. We therefore recommend that a 2x multiplier be adopted to protect liquidity.[8] Applying a 5x multiplier which is not calibrated to actual trading activity in the swap markets will clearly damage liquidity, leaving market participants with the uncomfortable choice of either entering into a significantly more expensive trade or remaining unhedged.

  - Using the "mean" when determining the social trade size skews the block trade size threshold too high. This is made clear when considering a simple example of 10 trades: 8 at $10MM; 1 at $50MM; and 1 at $100MM. In this example, the median and mode will both be $10MM (representative of the appropriate social trade or standard quotation size), whereas the mean is $23MM, significantly higher than the social trade size. We strongly recommend that the "mean" be removed as a component of the methodology for calculating social trade size.

- Reporting notional amount for trades – The Proposed Rule's rounding convention provides that notional amounts greater than $250MM be disseminated as "$250MM+". We believe that the notional amount of each block trade should be disclosed by reference to the relevant block trade size threshold as determined above (e.g., for the example above, the notional amounts of both the $50MM and the $100 MM trades, which would be regarded as block trades, would be reported as "$20MM+", calculated by multiplying the social trade size by the 2x multiplier). This is similar to the way that TRACE[9] reports the trade size of block trade bond transactions.

- Phasing implementation –The Commission should take an incremental approach to real-time public reporting and initially only require dissemination of transaction data for a subset of swap trading activity within a reasonable time frame. This initial subset would be expanded only after the effect on liquidity had been adequately assessed.

  The initial phase of public reporting and dissemination should be limited to the most liquid bucket for a given swap instrument. The Commission could then determine whether changes should be made to the reporting framework (for example, by adjusting the reporting time delay, revising the block trade size threshold or modifying the rounding convention for a given swap instrument).[10]

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[7] The proposed 95% distribution test does not reflect liquidity in the swap markets and should not be used.

[8] As an alternative method of determining the appropriate multiplier for a given swap instrument, we propose that the CFTC (in coordination with swap data repositories) survey market participants to solicit their views. We would encourage the CFTC to survey at least 100 active buy-side and sell-side market participants and present the data publicly.

[9] See the TRACE User Guide, version 2.4 (last updated March 31, 2010), at p 50.

[10] Other real-time reporting systems have adopted a similar phase-in approach. For example, TRACE started in July 2002 with reporting on a subset of bonds (based on liquidity), with public reporting within 75 minutes of execution. Subsequent changes in 2003 and 2005 expanded the instruments subject to reporting and reduced the time for public reporting to 45 minutes and then to 15 minutes. The TRACE experience demonstrates the length of time required to study, review and assess the effects of real-time reporting on market liquidity, as well as the need to provide adequate lead time for market participants to build a common infrastructure for reporting.

Our proposal for phased implementation of the real-time reporting requirement for swaps is consistent with the implementation approach proposed by the Securities and Exchange Commission ("SEC") in Regulation SBSR. We urge the Commission and the SEC to coordinate in setting the implementation timeframes for public reporting of both swaps and security-based swaps.

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UBS is grateful for the open manner in which the Commission has addressed issues arising in connection with the implementation of the real-time reporting rules for swaps. We welcome the opportunity to provide additional information regarding our views on this topic, as well as any other issues related to the Dodd-Frank Act.

Respectfully submitted,

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Managing Director

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Managing Director