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Mr. David A. Stawick
Secretary of the Commission
Commodity Futures Trading Commission
1155-21st Street, NW
Washington, DC 20581

***Re: Core Principles and Other Requirements for Swap Execution
Facilities - 76 Fed. Reg. 1214 (January 7, 2011)***

Dear Mr. Stawick:

Tradeweb Markets LLC ("***Tradeweb***") welcomes the opportunity to comment on the various rules proposed by the Commodity Futures Trading Commission ("***Commission***" or "***CFTC***") governing oversight and regulation of swap execution facilities ("***SEFs***") and implementing procedures for compliance with the core principles set forth in Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "***Dodd-Frank Act***").

Since 1998, Tradeweb has offered a regulated electronic trading system for OTC fixed income investors and has played an important role in providing greater transparency in and improving the efficiency of the trading of fixed income securities and derivatives. Indeed, Tradeweb has been at the forefront of creating electronic trading solutions which support price transparency and reduce systemic risk, the hallmarks of Title VII of the Dodd-Frank Act. Accordingly, Tradeweb is supportive of the Dodd-Frank Act and its stated policy objectives relating to Title VII, and it respectfully requests the Commission give further consideration to the needs of market participants when proposing rules relating to the derivatives markets and specifically SEFs. The aim of the regulation must be to achieve the goals of the Dodd-Frank Act without materially disrupting the market and the liquidity it provides to end users who use derivatives to manage their varying risk profiles. To that end, if the rules regarding how market participants must interact with each other from the perspective of trading and accessing liquidity are not flexible enough to accommodate the varying methods of execution, market participants simply will not participate; instead, they will seek alternative, less efficient markets to manage their risk. Moreover, if the rules relating to how SEFs need to comply with the core principles are not flexible enough, SEFs will be unable to offer competitive and different business models which we believe the Commission is attempting to provide. We certainly do not believe that these are the ultimate goals of Title VII and the SEF rules.

Accordingly, we respectfully believe the Commission must keep in mind the fact that regulated swap market trading – without regard to overly prescriptive rules regarding the manner in which participants interact, but with the appropriate transparency and regulatory oversight – combined with clearing and reporting is what will accomplish the underlying policy goals without impacting liquidity and disrupting the market. To that end, it is imperative that the Commission does not propose unduly prescriptive trading protocols and requirements (or overly rigid implementation of the core principles set forth in the Commodity Exchange Act, as

amended by the Dodd-Frank Act (the “*CEA*”) that unnecessarily hamper SEFs, hurt the market and ultimately undermine – rather than promote – the goals of the Dodd-Frank Act.

For these reasons and those set forth more fully below, Tradeweb has a significant interest in the proposed rules which would govern the operations and activities of SEFs, and it has been an active participant in the ongoing debate around SEFs, how best to bring greater transparency and accountability to the over-the-counter (“*OTC*”) derivatives market, and the implementation of Title VII of the Dodd-Frank Act.

I. Background on Tradeweb

Tradeweb is a leading global provider of electronic trading platforms and related data services for the OTC fixed income and derivatives marketplaces. Tradeweb operates three separate electronic trading platforms: (i) a global electronic multi-dealer to institutional customer platform through which institutional investors access market information, request bids and offers from, and effect transactions with, liquidity providers that are active market makers in fixed income securities and derivatives, (ii) a platform for retail-sized fixed income securities, and (iii) an inter-dealer platform, called Dealerweb, for U.S. Government bonds and mortgage securities.¹

Founded as a multi-dealer online marketplace for U.S. Treasury securities which launched in 1998, Tradeweb has been a pioneer in providing transparent and efficient regulated, electronic trading and trade processing platforms for the OTC marketplace for over 12 years, and has offered electronic trading in OTC derivatives on its institutional dealer-to-customer platform since 2005. Active in 20 global fixed income, money market and derivatives markets, with an average notional daily trading volume of \$250 billion, Tradeweb’s leading institutional dealer-to-customer platform enables more than 2,000 institutional buy-side clients to access liquidity from more than 40 sell-side liquidity providers by putting the liquidity providers in real-time competition for client business in an auction in which each liquidity provider is disclosed to the client. These buy-side clients comprise the majority of the world’s leading asset managers, pension funds, and insurance companies, as well as most of the major central banks.

Since the launch of interest rate swap (“*IRS*”) trading in 2005, the notional amount of interest rate derivatives traded on Tradeweb has exceeded \$6.5 trillion from more than 75,000 trades. Tradeweb has spent the last 6 years expanding its derivatives functionality to enhance real-time execution, provide greater price transparency and reduce operational risk. Today, the Tradeweb system provides its institutional clients with the ability to (i) view live, real-time IRS (in 6 currencies, including U.S., Euro, Sterling, Yen), and Credit Default Swap Indices (CDX and iTraxx) prices from liquidity providers throughout the day; (ii) participate in live,

¹ Tradeweb operates the dealer-to-customer and retail-size platforms through its registered broker-dealer, Tradeweb LLC, which is also registered as an alternative trading system (“*ATS*”) under Regulation ATS promulgated by the SEC under the Securities Exchange Act of 1934. Tradeweb operates its inter-dealer platform through its subsidiary, Hilliard Farber & Co., Inc., which is also a registered broker-dealer and operates Dealerweb as an ATS. In Europe, Tradeweb offers its institutional dealer-to-customer platform through Tradeweb Europe Limited, which is authorized and regulated by the UK Financial Services Authority as an investment firm with permission to operate as a Multilateral Trading Facility. In addition, Tradeweb Europe Limited has registered branch offices in Hong Kong, Singapore and Japan and holds an exemption from registration in Australia.

competitive auctions with multiple liquidity providers at the same time and execute an array of trade types (e.g., outrights, spread trades, or rates switches); and (iii) automate their entire workflow with integration to Tradeweb so that trades can be processed in real-time from Tradeweb to customers' middle and back offices, to third-party affirmation services (if requested) and swap data repositories ("**SDRs**") such as DTCC Deriv/SERV, and to all the major derivatives clearing organizations ("**DCOs**"). Indeed, in November 2010, Tradeweb served as the execution facility for the first fully electronic multi-dealer-to-customer interest rate swap trade to be cleared in the U.S., and last month, Tradeweb completed the first fully-electronic multi-dealer-to-customer credit default swap trade to be executed and cleared in the U.S. Tradeweb's existing technology maintains a permanent audit trail of the millisecond-by-millisecond details of each trade negotiation and all completed transactions, and allows parties (and will allow SDRs and DCOs) to receive trade details and access post-trade affirmation and clearing venues.

With such tools and functionality in place, Tradeweb is currently providing the OTC marketplace with a swap execution facility that provides greater transparency and increased efficiency to the OTC fixed income and derivatives marketplace, and reduces operational risk for our market participants – all of which are core policy objectives and goals of Title VII of the Dodd-Frank Act. Moreover, with the requirement that all swap transactions be reported to SDRs and that certain transactions be cleared, successful SEFs that attract market participants to trade must be able to transmit trade details to SDRs and DCOs instantaneously, which would help reduce systemic risk. With our background and experience in providing regulated markets to buy-side and sell-side OTC professionals, Tradeweb believes that it can provide the Commission with a unique and valuable perspective on the proposed rules.

Tradeweb intends to register its execution facility as a SEF as soon as possible pursuant to Section 5h(a) of the CEA .

II. Discussion

In connection with implementing the new comprehensive regulatory framework for swaps established by the Dodd-Frank Act, Sections 733 and 723(a)(3) of the Dodd-Frank Act require the Commission to adopt rules governing regulatory obligations of SEFs and compliance by SEFs with the fifteen core principles set forth thereunder (the "**Core Principles**"), which are set forth in Sections 5(h) and 2(h)(8) of the CEA, respectively.² Pursuant thereto, the Commission is proposing (i) certain general rules, including initial and ongoing SEF registration requirements, SEF functionality requirements, and acceptable swap execution methods and (ii) rules to implement the Core Principles.

In doing so, the Commission has noted that it has taken into account the stated goals of Section 733 of the Dodd-Frank Act to promote both the trading of swaps on regulated markets (i.e., SEFs and designated contract markets ("**DCMs**")) and increase pre-trade price transparency in the swaps market – as well as the novel nature of SEFs and the Commission's experience

² The proposed "general regulations" would be included in Subpart A of Part 37 of the Commission's regulations, specifically §§37.1 through 37.11 and the proposed regulations which would implement the fifteen core principles would be included as Subparts B through P of Part 37.

overseeing compliance of DCMs with the DCM core principles as codified in the CEA. See 76 Fed. Reg. 1214 at 1215, 1219 (January 7, 2011). The Dodd-Frank Act clearly recognizes the existence and importance of electronic platforms in achieving these objectives, and Tradeweb believes regulation should foster, rather than inhibit, the benefits these venues provide. Tradeweb supports the Commission's objectives and is mindful both of the advantages of greater price transparency of swaps and of the Commission's experience overseeing DCMs' compliance. Moreover, Tradeweb understands that the Commission has sought to provide SEFs with some flexibility to determine the manner in which market participants can trade swaps, and Tradeweb supports the Commission's use of flexibility in its rulemaking. However, Tradeweb believes that the final rules can and should satisfy the goals of the Dodd-Frank Act by providing market participants and SEFs with greater flexibility (than has been proposed) to meet the goals and Core Principles of the Dodd-Frank Act.

By ensuring that the rules retain sufficient flexibility to allow end users to elect where and how they transact business, the Commission will provide for the most competitive execution of trades and encourage the greatest liquidity in the market. Accordingly, the rules should not unduly limit the choices of execution methods available for market participants to manage their risks efficiently and effectively, or overly prescribe the manner in which market participants can choose to interact with each other to manage such risks (e.g., requiring an RFQ to be transmitted to a minimum of five market participants). Further, the Dodd-Frank Act clearly contemplates that a SEF should have broad, reasonable discretion to establish how it implements the required regulatory framework. Overly prescriptive rules on the registration and administration of SEFs and their compliance with the Core Principles could place an unreasonable burden on existing swaps trading platforms prior to the effective date of the final rules and may also discourage new entrants into the swaps market. The Commission should thoughtfully implement the rules to provide electronic swaps trading platforms with the flexibility required by the Dodd-Frank Act. To that end, the process of SEF registration, including seeking grandfather relief, should take into account that: (i) the SEF is a new type of registrant and (ii) there will be SEF applicants who are already trading swaps and meet the material requirements to be a SEF, but may not be able to comply with all of the SEF requirements due not to factors within their control but rather to the interdependence on and interoperability with other registered entities (such as DCOs and SDRs) that may not be fully ready. Accordingly, there should be enough flexibility in that process to allow such applicants to operate as a SEF and continue to trade swaps while market participants and other registered entities in the regulatory trade cycle transition into compliance. We do not believe the rules as proposed, particularly with respect to the grandfather relief, provide enough flexibility in this regard.

Simultaneously with the Commission, the SEC is developing rules in connection with implementing the new comprehensive regulatory framework for security-based swaps established by the Dodd-Frank Act, including the registration and regulation of security-based swap execution facilities ("**SB SEFs**"), and has proposed rules to that effect ("**SEC Proposed Rules**"). See 76 Fed. Reg. 10948 (February 28, 2011). Because of the overlapping nature of the proposed rules for SEFs and SB SEFs, and because many SEFs – including Tradeweb – will also be registering as SB SEFs, we believe it is imperative that the Commission and the SEC cooperate in developing final rules, which should be aligned to the greatest extent possible. Bifurcated rulemaking with respect to the swaps market will result in confusion and lack of

confidence in the marketplace and could potentially drive participants away from the market altogether.

With these general comments in mind, Tradeweb wishes to provide the following specific comments on the Commission's proposed rules.

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The Commission's proposed rules contain three main elements. First, the Commission prescribes certain functionalities that a SEF is required or permitted to offer on its platform and the types of transaction execution methods that a SEF may offer to market participants within the context of those functionalities. Second, the Commission proposes rules to govern how a SEF may comply with the fifteen core principles which are enumerated in the Dodd-Frank Act and set forth in the CEA. Third, the Commission establishes a process for the registration of SEFs, including the grandfathering of existing swaps trading platforms.

A. SEF Functionality and Transaction Execution

1. SEF Functionality

The Commission first proposes that in order to qualify for registration as a SEF, a trading platform must provide certain minimum functionality for transactions that are required to be executed on a SEF. These "required transactions" include swap transactions that are subject to the clearing and execution requirements of the CEA, are "made available for trading" pursuant to these rules, and which are not block trades, illiquid or bespoke.³ At a minimum, a SEF must offer trading services to facilitate required transactions by providing market participants with the ability to post both firm and indicative quotes on a centralized electronic screen accessible to all market participants on the SEF.⁴ A market participant must be able to execute a trade against a firm quote that it has access to, and does not have to initiate or receive a request for quote ("**RFQ**") in order to make a bid or offer or execute a trade. See 76 Fed. Reg. 1214 at 1219.

So long as a SEF meets the minimum functionality requirements, the Commission proposes that it may also offer other functionalities that would allow a market participant to access fewer participants than the entire market. These permitted functionalities may include RFQ systems, order books, and other systems that meet the SEF definition and comply with the Core Principles. See id. at 1220.

Tradeweb agrees with the Commission that, to promote the most competitive execution of trades and the greatest liquidity in the market, a SEF should have the flexibility to provide

³ Although not specifically addressed in these proposed rules, Tradeweb urges the Commission to clarify the manner in which block trades must be executed. We seek confirmation that block size trades in swaps that are required to be cleared (and which are made available for trading by a SEF) would not be subject to the minimum trading requirements for Required Transactions (as defined in the proposed SEF rules), but would be required to be reported to and processed through a SEF in a manner prescribed by the SEF. We believe the Commission should explicitly clarify that point in its final rules.

⁴ It is important to note, however, that in a system where all bids and offers are submitted on a disclosed basis, liquidity providers will not want other liquidity providers to see their firm bids and offers, and a SEF should be permitted to operate its markets such that the liquidity providers cannot see each others' bids and offers.

functionality that meets the varying needs of its participants, including reasonable discretion to offer multiple platforms that have distinct trading models and are built with different technologies and architectural infrastructures. We believe the Commission's proposed rules allow for such flexibility, but we would like to emphasize that a SEF should have reasonable discretion to choose the manner in which it meets the varying needs of its participants and maintains the integrity of its markets.

Accordingly, a SEF should be able to operate a disclosed (or if it chooses, an anonymous or partially anonymous) RFQ system and a separate and distinct anonymous order book – each with different participation standards and rules of engagement and each utilizing different technology. Indeed, we do not believe that there should be any requirement, and it is crucial for the Commission to clarify that there is no requirement, that the two separate systems be interoperable or that bids and offers in one market interact with the other. An operator of an order book does not want to be (and should not have to be) required to have its system interoperable with an RFQ system. For example, if two separate SEFs operated by separate and independent legal entities were to operate an RFQ system and order book, respectively, their technologies and orders would not be required to interact with each other. We see no reason why a single SEF operating separate and distinct markets on different technologies should have a different set of obligations and requirements than separate SEFs. This is critical to providing market participants the flexibility to choose the manner in which they interact with other market participants – whether on a disclosed or an anonymous basis through an order book, via an RFQ system or engaging streaming quotes – and protecting market participants' choices.

The Commission has also requested comment on whether swaps that meet a certain level of trading activity be limited to trading through order books. For the reasons noted in this letter, we believe it is inappropriate for the Commission to mandate that market participants be required to trade specific instruments in a certain manner. In addition to unnecessarily forcing a market participant to trade a swap in a particular manner, this overly prescriptive approach would likely have the effect of decreasing the trading activity (and liquidity) that had triggered the requirement for the swap to be traded on an order book. The Commission should allow market forces to guide the migration of liquidity to execution methods that suit market participants – not the specific mandates of the Commission.

We also note for the Commission that in the context of an anonymous order book, market participants would generally not post indicative quotes (orders on an anonymous order book are firm so participants can reliably execute), and as such the minimum requirement of having the ability to post indicative quotes should have no applicability in that mode of execution. Otherwise, SEF operators which are operating an order book would be required to build and offer functionality that will not be used by its participants and do not make sense in the context of that marketplace. As such, we encourage the Commission to consider eliminating that requirement for order book systems or granting exemptive relief with respect to SEF applicants who intend to operate a marketplace where such minimum functionality has no applicability.⁵

⁵ The same is true with respect to the 15-second rule with respect to an RFQ system where market participants access the market directly (i.e., not through a broker or other liquidity provider). We do not see how it would apply or work operationally in either case. In those circumstances, a firm quote that has been posted to a centralized

2. Request for Quote Systems

Tradeweb believes that the Commission's proposed requirement that all RFQs be transmitted to at least five recipients does not provide enough flexibility for market participants. See *id.* at 1220-21. While under certain limited circumstances it may be in the interest of a market participant to request a quote from a large number of recipients for certain trades, in most other instances, a market participant will not want to disclose its trading interest to a large segment of the market; this is particularly true with respect to trades that are large but do not qualify as block size. As such, a minimum requirement of five recipients for each RFQ – which has no support in the language of Dodd-Frank – may dissuade a market participant from requesting a quote because it would result in too wide a dissemination of its trading interest, thereby decreasing liquidity. Further, it has been Tradeweb's experience that in the U.S. Treasuries market, although liquidity-takers can send RFQs to five liquidity providers, the average number of recipients chosen by an RFQ requester is three (even in the most liquid securities) and the number of liquidity providers selected depends on the size and nature of the trade and market conditions at the time. Thus, our experience has been that flexibility is the key to maintaining liquid markets, and that setting a rigid floor could adversely impact liquidity and the market as a whole.

Therefore, Tradeweb would support a rule that affords market participants the discretion to decide on a case-by-case basis the number of recipients to which it wishes to send an RFQ, so long as the market participant has the option to send its RFQ to all liquidity providers and to all other market participants that have appropriate trading relationships with the requester (and have chosen to receive RFQs). The SEC Proposed Rules include a similar rule which allows RFQs to be sent to all or fewer than all liquidity providing participants, which would allow a requester to send an RFQ to any number of liquidity providers that is permitted by the SEF, including one. 76 Fed. Reg. 10948 at 10974. In the interest of promoting a more liquid swaps market and aligning the Commission's rules with the SEC's on such a fundamental trading requirement for SEFs and SB SEFs, Tradeweb urges the Commission to adopt an RFQ requirement that provides more flexibility to market participants – by either setting the minimum at two (instead of 5) or simply adopting the SEC's proposal that one RFQ recipient can be sufficient.

The Commission has also requested comment on whether it should consider including a requirement that for transparency purposes, responses to an RFQ be displayed to all participants (presumably, including those not participating in the RFQ). As we noted in our December 6, 2010 letter to the Commission, if the Commission were to propose rules that in order for a SEF to satisfy its pre-trade transparency requirement, all of its participants must be able to view (even if they cannot participate in) an ongoing RFQ negotiation, such disclosure might force the liquidity provider to widen its bid/offer spread so as to price in the risk associated with the information on that trade being disseminated to the entire market. It is not clear what the benefit of this would be to market participants. With a centralized screen of bids and offers for each

screen or transmitted in response to an RFQ has already been exposed to the market, as has a voice-based communication to a SEF employee that is immediately entered into the electronic system. In short, we do not understand how the 15 second rule would apply other than in the context where a voice broker facilitating a natural cross or a liquidity provider representing a customer in a trade in which the customer does not have direct access to the SEF.

specific instrument on the system and appropriate post-trade reporting, we believe there will be sufficient transparency in the swaps market. We believe that imposing a requirement such as for a “transparent RFQ” would harm market participants more than it would help.

We note also that during discussions with the Commission staff, the question arose as to whether the Commission should require that market participants sending an RFQ should be anonymous to the liquidity providers receiving the RFQ. As noted above, we do not believe it is necessary or appropriate for the Commission to impose such a specific requirement, and we believe that the most effective way for market participants to use an RFQ system is to do so on a fully-disclosed basis. However, if a SEF would like to operate an RFQ system where the requester is anonymous, it should be free to do so, and market participants can choose whether they would like to interact with liquidity providers in that manner. The Commission, however, should not attempt to make the decision for market participants through the rulemaking process.

With respect to the transmission of resting bids and offers that must be transmitted to requesters along with specific responses to an RFQ, Tradeweb seeks to confirm its understanding that not all resting executable bids and offers must be transmitted to the requester, but rather only “like-kind” resting executable bids and offers from that marketplace are required,⁶ such as those with the exact same tenor amount as the request and which are not customized.⁷ Further, for technological reasons, a SEF should be afforded the flexibility to determine how many and which resting orders are displayed to the requester based upon its own reasonable judgment in meeting the needs of participants in the market (e.g., five best prices in favor of the requester of instruments in the same type).

3. Swaps Made Available for Trading

As previously noted, the Commission has proposed that if a clearable swap has not been “made available for trading” by a SEF, then it is not subject to the pre-trade transparency requirements and is not required to be traded on a SEF. The Commission proposes that each SEF must annually assess swaps that it offers and make a determination as to whether they are “made available for trading,” considering, with respect to this or related swaps, the frequency of transactions, open interest, and any other factor the Commission determines. A SEF would, however, be permitted to facilitate bilateral trading of swaps that have not been made available for trading so long as it clearly identifies such trades to market participants. 76 Fed. Reg. 1214 at 1221-22.

Tradeweb believes that a SEF must be permitted to use its own reasonable commercial judgment as to what it makes available for trading (whether cleared and whether standard or

⁶ As discussed above, a SEF that is offering multiple marketplaces (i.e., both an RFQ system and a separate Order Book system) will likely employ separate technology and will operate these marketplaces separately (i.e., different market participants interacting in different ways). Accordingly, resting bids and offers from the anonymous order book will not (and for technological and market integrity purposes cannot) be shown in the RFQ system. Otherwise, anonymous bids and offers in the order book will be converted to disclosed bids and offers in the RFQ system, destroying the integrity of the two distinct markets.

⁷ For example, if an RFQ for a plain vanilla 5 year swap for \$50 million is sent, the SEF should not need to show resting orders for (i) the 5 year, 1 day swap, (ii) the 5 year for \$49 million, (iii) the 5 year for \$51 million, or (iv) the 4 year, 10 month for \$50 million.

slightly customized), and that the Commission should consider adopting a notice process similar to that employed by alternative trading systems (“*ATSS*”) regulated by the SEC (rather than an affirmative consent process). Given that the Commission, in conjunction with DCOs, will be determining what is required to be cleared (and therefore effectively determining what should be subject to the trading requirement), the process for a SEF to make a swap “available for trading” can be achieved by providing the Commission and market participants with sufficient prior notice (e.g., 30-90 days) that a swap will be made available to trade (along with a designation of whether the swap is required to be cleared). This will give market participants, trading venues, DCOs and SDRs all sufficient time to incorporate the trading of that swap into their systems and workflow.

B. Compliance with Core Principles

As noted previously, Tradeweb supports the Commission’s proposed Core Principle 1, giving a SEF reasonable discretion to establish the manner in which it complies with the Core Principles. This discretion is critical to the effective administration of a SEF and to the provision of services that meet the needs of a SEF’s market participants, particularly in light of the fledgling nature of this newly-established type of entity. The Core Principles for SEFs in the Dodd-Frank Act have been imported from the CEA’s core principles for DCMs and their adaptability to SEFs and the trading of swaps is a work in progress. The greater flexibility afforded to SEFs to comply with the Core Principles, the more likely it is that a SEF will be able to comply without disturbing the trading activities and operations of its participants or disrupting its own internal administration.

Moreover, if the Commission were to take an overly prescriptive approach, it could well dissuade future entrants into the swaps market, which would reduce competition and trading venue choices for market participants – ultimately undermining the Commission’s stated objective of promoting the trading of swaps on SEFs, a key goal of the Dodd-Frank Act. A less prescriptive approach by the Commission would incentivize the opposite. Provided that a SEF is meeting the stated goals of the Core Principles and has implemented adequate procedures to do so, Tradeweb believes that the greater flexibility afforded to a SEF to comply with the Core Principles in a manner that makes sense for its business and its customers, the more likely it is that greater numbers of swaps will be traded on regulated platforms.

1. Core Principle No. 2 (Compliance with Rules)

(a) Impartial Access

Tradeweb supports the Commission’s proposed rule that a SEF must provide impartial access to eligible contract participants (“*ECPs*”) and independent software vendors that have been admitted as market participants to the SEF according to objective, pre-determined criteria that are fairly and impartially applied. See *id.* at 1223. Tradeweb agrees with the Commission that “impartial access” to a SEF’s markets and market services (including indicative order screens) should not require a SEF to grant access to anyone who requests it, as universal access would greatly harm market efficiency and integrity. As noted above, the standard for impartial access cannot be that a SEF must allow anyone to participate; the standard should be that,

provided a SEF establishes its own reasonable and objective criteria, it must administer such criteria consistently and allow those who meet the criteria to participate on the platform.

It is critical, in our view, therefore, and we seek to confirm our understanding, that in establishing such objective, pre-determined criteria for access, a SEF would be permitted to use its own reasonable discretion and commercial judgments with respect to setting the criteria for each of its markets and to have different standards for participants that access and participate on its platform in different ways. Accordingly, consistent with the approach to offering multiple marketplaces within a SEF, Tradeweb believes that its access criteria may reasonably differ for each mode of execution and differ within one mode of execution – as each market will offer different services and may have different types of participants. Tradeweb urges the Commission to confirm explicitly the ability of a SEF to implement access criteria that differ for each market it offers, provided that such criteria are objective, pre-determined and applied fairly and impartially, and are not anti-competitive.

(b) **Regulatory Services Provided by a Third Party**

While a SEF would be permitted to utilize a registered futures association or other registered entity to assist in performing certain self-regulatory functions, the Commission has proposed that a SEF would remain ultimately responsible for execution of these functions. *Id.* at 1224. Tradeweb urges the Commission to clarify that while a SEF would remain responsible for applicable self-regulatory functions, it would have flexibility in contracting with third party service providers, so long as the SEF uses reasonable diligence and acts in a manner consistent with market practice.

(c) **Disciplinary Procedures and Sanctions**

Tradeweb supports the Commission's desire for SEFs to impose meaningful rules of engagement for its participants and trading on its SEF. However, not only would the Commission's proposed disciplinary procedures and sanctions impose significant costs on SEFs to implement and administer, those procedures and sanctions should be more appropriately delegated to the responsibility of organizations like the Financial Industry Regulatory Authority or the National Futures Association – which can administer and enforce these procedures consistently among SEFs, and can do so on a more cost effective basis – rather than to SEFs. We would like the Commission to consider whether these responsibilities are best borne by each SEF or a central, third-party self-regulatory organization.

2. **Core Principle Nos. 3 and 4 (Swaps Not Readily Susceptible to Manipulation; Monitoring of Trade and Trade Processing)**

Core Principle 3 requires that a SEF may not offer for trading swaps that are readily susceptible to manipulation, and the Commission's proposed rules would require that a SEF demonstrate that its swap contracts are not susceptible to manipulation. *Id.* at 1227. The Commission has further proposed in connection with Core Principle 4 that a SEF must take an active role in preventing manipulation, price distortion, and disruptions of the delivery or cash settlement process by monitoring trading activities and preventing market disruptions. *Id.* at 1227-28.

Tradeweb supports the notion that a SEF should take an active role in preventing manipulation, distortion and disruptions in its markets, but a SEF cannot reasonably be expected to ensure without a doubt that a marketplace other than its own has not been manipulated to affect the SEF's swap. In short, Tradeweb believes it is appropriate to require SEFs to monitor their "classroom" but not the "whole school," especially when it does not have enough information about what is going on in other classrooms. Indeed, the SEC Proposed Rules explicitly state that it might be difficult to determine whether a swap is readily susceptible to manipulation and states that various SB SEFs could reasonably come to different conclusions. 76 Fed. Reg. 10948 at 10977. Accordingly, Tradeweb seeks to confirm its understanding that a SEF would have reasonable discretion in the first instance to determine what constitutes adequate monitoring and appropriate risk controls for its own system. Moreover, Tradeweb seeks confirmation that the scope of a SEF's responsibility to monitor markets is limited to its own platforms and seeks clarification as to the scope of its responsibility to arrive at specific conclusions regarding whether a swap is readily susceptible to manipulation. Tradeweb urges the Commission to provide some guidance to a SEF in this process in the form of a safe harbor consisting of reasonable objective criteria.

3. **Core Principle No. 6 (Position Limits)**

Tradeweb seeks to confirm its understanding that a SEF only need monitor its market participants' position limits or positions in particular instruments with respect to positions entered into on its own platforms, not their market-wide positions – *i.e.*, it must only monitor its classroom, not the whole school. In this regard, a SEF will ordinarily not have knowledge regarding positions entered into by market participants on markets other than its own.

4. **Core Principle No. 12 (Conflicts of Interest)**

With respect to Core Principle 12, Tradeweb separately submitted its comments to the Commission's proposed rules on mitigation of conflicts of interest. 75 Fed. Reg. 63732 (October 18, 2010). See Tradeweb's Comment Letter dated November 17, 2010, which is incorporated herein by reference.

5. **Core Principle No. 15 (Chief Compliance Officer)**

The Commission has proposed that a SEF must designate a chief compliance officer ("**CCO**") with the authority and resources to develop and enforce policies and procedures necessary to fulfill the duties of the CCO enumerated in the rules. The rules would require that a CCO be appointed, supervised and, if necessary, removed by the board of directors of the SEF, or by a senior officer of the SEF, and the CCO would have to have the background and skills necessary to fulfill the responsibilities of the position and could not be the SEF's general counsel or a member of its legal department. The Commission enumerates specific meeting requirements and relationships for the CCO with the both the board of directors and the regulatory oversight committee. The Commission additionally would require the CCO to file an annual compliance report, including a review or description of the SEF's policies and procedures and its compliance with the rules and regulations, an assessment of resources available for compliance, descriptions of compliance matters in the past year and any objections to the compliance report lodged by the

board of directors or senior officer that were not included in the report. See 76 Fed. Reg. 1214 at 1231-35.

Tradeweb supports the creation of a dedicated CCO position independent of a SEF's legal department to oversee the SEF's compliance matters, but believes that a SEF should have the flexibility to determine reasonable procedures for appointing, supervising and removing the CCO that meet the needs of its own specific organizational and corporate governance structure. The Commission has indeed requested comment on issues of supervision of the CCO within companies that are not standard corporations, whether it be by board of directors, senior officer (a term which is not defined),⁸ or otherwise. Because SEFs will exist with various organizational and governing structures, Tradeweb believes there is no single rule that could accommodate each variation and the Commission could not and should not attempt to prescribe detailed rules meant to address each potential variation. Instead, Tradeweb believes that the background and skills required of a CCO and the requirement that the CCO file an annual compliance report with the above-detailed information, would be sufficient for the Commission's purpose, without prescribing any more rules as to internal administration of a SEF.

Additionally, Tradeweb believes that the Commission should qualify the enumerated duty of the CCO to ensure compliance with the Dodd-Frank Act and CFTC regulations. See id. at 1251. It is unreasonable to require a CCO to ensure compliance because the CCO, by nature of his duties, would not have control over the operations and activities of the SEF. Further, this enumerated duty is inconsistent with a CCO's authority and role as adviser to the SEF, and SEFs will likely find it difficult to hire CCOs who are willing to undertake a duty to ensure compliance. Tradeweb urges the Commission to instead specify that the duty of the CCO is to adopt procedures and safeguards reasonably designed to ensure compliance with the CEA and CFTC regulations.

C. **General Regulations**

1. **SEF Registration**

As noted above, Tradeweb intends to register its existing execution facility for swaps as a SEF as soon as possible following publication of the final rules. Because the SEF is a newly-created entity and there is no procedural precedent for registration, Tradeweb believes it is imperative that the Commission staff provide real-time feedback to SEF applicants to aid them in implementing changes, if necessary, to facilitate expeditious review and approval of their applications. The Commission should also encourage pre-application socialization of an applicant's trading and compliance capabilities to maximize feedback that would assist applicants in preparing their applications. As currently proposed, temporary grandfather relief for existing swaps trading platforms such as Tradeweb (discussed below) would terminate upon rejection of a SEF application, and the Commission should take care to ensure that no applicant loses such grandfather relief due to inadvertent misunderstandings or good faith differences of opinion with respect to interpretation of the final rules.

⁸ Tradeweb believes that the term "senior officer" should be defined to include the SEF's chief executive officer or a duly authorized designee of the CEO.

Further, Tradeweb seeks to confirm its understanding that an applicant need not file separate SEF applications for each mode of execution that it will offer. For example, if an applicant wishes to offer an anonymous order book system and a disclosed RFQ system in addition to the minimum required functionality but on separate technological systems and with different market participants and procedures, we understand that only one application would be required for that applicant to register as a SEF – provided, of course, that the application clearly identifies the different features of the separate marketplaces and that each feature is in compliance with the rules.

2. Grandfather Relief

Tradeweb supports the Commission's proposed grandfathering of SEF applicants who are existing swaps trading platforms during the period between the effective date of the final rules and approval or rejection of their SEF applications. *Id.* at 1216-17. Indeed, we believe this is a critical component of effectively implementing Title VII of the Dodd-Frank Act by giving market participants an opportunity to transition smoothly to the end-to-end requirements for trading swaps. To that end, the process for SEFs to register, including seeking grandfather relief, should account for the fact that: (i) SEFs are a new type of registrant and (ii) there will be SEF applicants, who are already trading swaps and meet the material requirements to be a SEF but may not be able to obtain approval due to their interdependence on and interoperability with other registered entities (DCOs, SDRs, etc.) that may not be fully ready. Accordingly, there should be enough flexibility in that process to allow such applicants to operate as a SEF and continue to trade swaps while market participants and other registered entities in the regulatory trade cycle transition into compliance. We do not believe the rules as proposed, particularly with respect to the grandfather relief, provide for enough flexibility in this regard.

Furthermore, Tradeweb believes that the certification that an applicant for SEF registration is required to give in order to qualify for temporary grandfather relief should be qualified. The Commission proposes that an applicant that requests grandfather relief must certify in its application that it believes that while it is operating under grandfather relief, it will meet the requirements of Part 37 of the CEA, as adopted by the Commission. Tradeweb does not believe that an applicant can reasonably certify that it believes that there will be no violations of Part 37, and should instead be required to certify that, to the best of its knowledge and belief, the applicant has implemented adequate procedures that are designed to ensure compliance with Part 37.

Finally, Tradeweb seeks clarification from the Commission regarding a SEF applicant's ability to introduce new products and models during the grandfather period. Given the extended time frame the Commission expects for granting approval to a new SEF, Tradeweb believes that an applicant should be permitted to introduce such products and models while it is operating under temporary grandfather relief, so long as they provide prior notice to the Commission and meet all other requirements then applicable to SEFs and the certification made by the applicant to qualify for grandfather relief remains valid.

Mr. David A. Stawick

March 8, 2011

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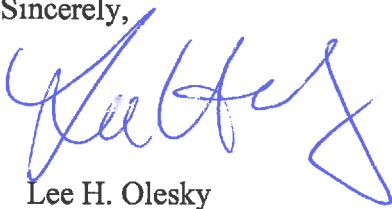
III. Conclusion

In sum, while we are supportive of the goals of the Dodd-Frank Act and believe increased regulatory oversight is appropriate for the derivatives market, we want to emphasize that flexibility in trading models for execution platforms is critically important to maintain flexibility in market structure so that end-users can in turn manage their risks in a flexible manner.

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If you have any questions concerning our comments, please feel free to contact us. We welcome the opportunity to discuss these issues further with the Commission and its staff.

Sincerely,



Lee H. Olesky
Chief Executive Officer



Douglas L. Friedman
General Counsel

- cc: Honorable Gary Gensler, Chairman
Honorable Michael Dunn, Commissioner
Honorable Jill E. Sommers, Commissioner
Honorable Bart Chilton, Commissioner
Honorable Scott O'Malia, Commissioner
Dan Berkovitz, General Counsel, Office of the General Counsel
Richard Shilts, Acting Director, Division of Market Oversight
Ananda Radhakrishnan, Director, Division of Clearing and Intermediary Oversight