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March 8, 2011

VIA ELECTRONIC SUBMISSION

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

**Re: Core Principles and Other Requirements for Swap Execution Facilities
76 Fed. Reg. 1214 (January 7, 2011) - RIN 3038-AD18**

Dear Mr. Stawick:

GFI Group Inc. (“GFI”)¹ submits this letter in connection with the rules proposed by the Commodity Futures Trading Commission (the “Commission”) regarding the core principles and other regulatory requirements for swap execution facilities (“SEFs”).² As the Commission may know, GFI met with members of the Commission’s staff (the “Staff”) on February 24, 2011 to discuss certain aspects of the Proposed Rules, and the Staff suggested that GFI comment on

¹ GFI and its affiliates provide competitive wholesale market brokerage services in a multitude of global over-the-counter (“OTC”) and exchange-listed cash and derivatives markets for credit, fixed income, equity, financial, and commodity products. GFI’s parent company is headquartered in New York and employs more than 1,700 people, with additional offices in London, Paris, Hong Kong, Seoul, Tokyo, Singapore, Sydney, Cape Town, Dubai, Tel Aviv, Dublin, Calgary, Englewood, New Jersey, and Sugar Land, Texas. GFI and its affiliates provide services and products to over 2,400 institutional clients, including leading banks, corporations, insurance companies, and hedge funds. GFI intends to operate a swap execution facility that will be registered as such with the Commission.

² See 76 Fed. Reg. 1214 (January 7, 2011) (the “Proposed Rules”).

certain matters that were discussed at this meeting. GFI is submitting this letter in response to that suggestion.³

I. Voice Brokerage.

Under the Proposed Rules, a SEF that permits intermediation (a fundamental characteristic of voice brokerage) must require that all orders or requests for quotes that are received by phone and that are executable be immediately entered into the SEF's trading system or platform.⁴ For orders that are not executable upon receipt, the Proposed Rules require that a SEF create an electronic audit trail and enter these orders into its trading system or platform as soon as practicable.⁵ Additionally, the commentary to the Proposed Rules (the "Commentary") states that,

[...] voice-based communications in the proposed SEF context may occur in certain circumstances, such as when an agent: (1) Assists in executing a trade for a client, immediately entering the terms of the trade into the SEF's electronic system; or (2) enters a bid, offer or request for quote immediately into a SEF's electronic multiple-to-multiple trading system or platform."⁶

³ GFI is a member of the Wholesale Markets Brokers Association Americas ("WMBAA"). The comments set forth in this letter are intended to supplement any comments that may be submitted by the WMBAA and thus address discrete issues that are of concern to GFI.

⁴ See Proposed Regulation 37.205(b)(1).

⁵ *Id.*

⁶ See 76 Fed. Reg. 1221.

GFI requests that the Commission clarify that qualified SEF employees may act as more than mere order takers, and thus may provide market commentary to SEF participants and work their pending orders to increase the likelihood that these orders will actually be executed. In support of our view, we read the Dodd-Frank Act (the "DFA")⁷ and the above-mentioned Commentary to permit a voice broker to take an instruction from a participant, seek out a counterparty for the contra side of the transaction, and then match the two counterparties with one-another to consummate a trade. In all cases, the SEF must comply with the Core Principles as set forth in the Proposed Regulations.

Consistent with this request for clarification, we believe that it is also important for the Commission to recognize that market participants currently permit voice brokers to exercise time and price discretion when matching orders. This is because, unlike the more commoditized futures markets, the swaps markets are characterized by non-continuous, or episodic, liquidity. Therefore, the unique skills and knowledge of voice brokers are often necessary to seek out sources of liquidity. This also permits voice brokers to preserve the anonymity of their customers, which ultimately maximizes the potential for customers to receive favorable executions and lower transaction costs. This practice has led to the creation of the robust wholesale marketplace for swaps that exists today, and we request that the Commission confirm that this practice will be permitted to continue after the Proposed Rules become effective.

⁷ See H.R. 1473, 111th Congress (2010).

II. Block Transactions.

GFI believes that the Proposed Rules are unclear regarding the execution requirements for block transactions in swaps that are subject to mandatory clearing. Under the Proposed Rules, a block transaction in a swap that is subject to mandatory clearing is a “permitted transaction” and thus may be effected through voice brokerage. We believe that the requirements under the DFA are straightforward and require that, except for transactions with end-users, all transactions in swaps that are subject to mandatory clearing, block size or otherwise, must be executed on a SEF or DCM.⁸ It would appear that the Staff has taken the same position.⁹ However, the inclusion of block trades in the definition of “permitted transaction” is confusing as “permitted transactions” may apparently be done off a SEF. As a result, we request that the Commission confirm that block transactions must be effected on a SEF but may be subject to special rules (*e.g.*, delayed reporting and voice execution).

III. “Not Readily Susceptible to Manipulation”.

Proposed Regulation 37.301 would require SEFs to demonstrate that the swaps traded through their facilities are not readily susceptible to manipulation by providing the Commission with the information required under Appendix C to Part 38 of the Commission’s Regulations. We believe that once the Commission has declared these swaps to be subject to mandatory clearing, a SEF should not be required to corroborate the Commission’s prior determination.

⁸ See Section 723(a)(8) of the DFA.

⁹ See Comment No. 27054 to the Proposing Release (December 22, 2010) (entity that provide facilities for the execution or trading of block trades must be registered as a swap execution facility). <http://comments.cftc.gov/PublicComments/ViewComment.aspx?id=27054>.

Instead, as discussed below, we believe that a SEF should be permitted to rely on the analysis undertaken by the Commission in determining whether a swap should be subject to mandatory clearing.

Specifically, Section 2(h)(2)(E) of the CEA requires the Commission to adopt rules governing the review by the Commission of swaps that are proposed by a DCO to be made subject to the mandatory clearing requirement. Under the rules proposed by the Commission, a DCO that desire to make a swap available for clearing would be required to submit a significant amount of information about these swaps to the Commission for review. Among other things, the DCO must provide product specifications, including generally accepted contract terms; pricing sources , models and procedures, including information about price reference indices, their sources, methodology, and frequency of calculation; and measures of market liquidity and trading activity.¹⁰ Although we cannot be certain, we believe that this information would permit the Commission to determine whether a swap is readily susceptible to manipulation, and we presume that the Commission would be unwilling to make a swap subject to mandatory clearing unless it believed that the swap in question was not, in fact, readily susceptible to manipulation.

Requiring a SEF independently, and repetitively, to demonstrate that the same swaps that the Commission has previously reviewed are not themselves readily susceptible to manipulation serves no regulatory purpose because the SEF would be doing nothing more than providing the Commission with information that it has previously analyzed in detail. Accordingly, we recommend that the Commission revise proposed Regulation 37.301 to provide that a SEF will

¹⁰ See 75 Fed.Reg. 67277, 67281 (November 2, 2010).

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be deemed to have satisfied the requirements of Core Principle 3 if the Commission has previously required that swap to be cleared.

* * *

GFI appreciates the opportunity to submit these comments. As currently structured, certain aspects of the Commission's Proposed Rules may hinder rather than promote the goal of trading swaps on SEFs. Accordingly, we urge the Commission to reconsider the Proposed Rules in light of the comments set forth above.

If the Commission has any questions concerning the matters discussed in this letter, please contact me at (212) 968-2954, or Daniel Glatter, Assistant General Counsel, at (212) 968-2982.

Sincerely,



Scott Pintoff
General Counsel

cc: Honorable Gary Gensler
Honorable Michael Dunn
Honorable Jill E. Sommers
Honorable Bart Chilton
Honorable Scott O'Malia