



THOMSON REUTERS

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VIA ELECTRONIC FILING

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

RE: Core Principles and Other Requirements for Swap Execution
Facilities; Proposed Rule; **RIN Number 3038-AD18**

Thomson Reuters welcomes the invitation to submit comments to the Commodity Futures Trading Commission (“CFTC”) on the proposed rule establishing core principles and other requirements for swap execution facilities (“SEFs”), published January 7, 2011. Thomson Reuters supports the CFTC’s ongoing efforts to implement Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”), generally, and to support Congress’ goals in relation to SEFs, including promoting the trading of swaps on SEFs and promoting pre-trade price transparency in the swaps market. Crucial to fulfilling these goals is the preservation of flexibility in trading models to address the wide variety of markets and ensure that market participants are able to find sufficient liquidity in these markets to accomplish their investment objectives and not to deter the trading of swaps on regulated platforms. Thomson Reuters strongly believes that the CFTC should allow SEFs to operate efficiently while meeting the goals of Dodd-Frank.

BACKGROUND

The proposed rule will affect Thomson Reuters primarily because of its operation (through subsidiaries) of the Thomson Reuters Dealing and Thomson Reuters Matching applications, and its ownership interest in Tradeweb.¹ Thomson Reuters Dealing is a leading global, multi-asset electronic trading platform, and related data services, providing price transparency in a wide range of assets. Dealing was launched in 1982 and is now being used actively by over 18,000 professionals in over 125 countries for trading a diverse range of over 60 sub-asset classes including derivatives. Thomson Reuters Matching is an anonymous electronic trading application for the foreign exchange spot and swap markets with a central order book model. Both applications provide technology and connectivity for market participants and provide both pre- and post-trade transparency on an efficient and orderly trading platform together with post-trade efficiency. Tradeweb is a

¹ Tradeweb is filing separate comments in response to this proposed rule, and Thomson Reuters supports the comments made and alternatives proposed in that filing.



leading global provider of electronic trading platforms and related data services for the OTC fixed income and derivatives markets. Thomson Reuters anticipates that all of these trading platforms will register as SEFs, and therefore would be subject to the SEF requirements and related Core Principles set out in Dodd-Frank and through the proposed rule.

In addition, Thomson Reuters Markets Division is a leading provider of real time market connectivity for financial institutions in the United States and around the world. Its Markets Division provides market information, technology and connectivity between market participants to help enable transparent, efficient and orderly securities markets. The Company has pioneered many developments in both exchange and OTC markets, and so has deep expertise in electronic transactions processes across many of the asset ranges. These products and services may be useful to SEFs and market participants looking to comply with the requirements of certain core principles by use of third-party solutions.

COMMENTS

Thomson Reuters believes that its broad experience, both domestically and internationally, across a number of asset classes, gives it an ability to provide the CFTC with informed and relevant suggestions regarding the proposed rule. In general, Thomson Reuters urges the CFTC to recognize that Congress intended the SEF to be an entity that is distinct from the exchanges/ designated contract market, with each entity subject to different registration requirements and core principles. We agree with the comments made by Commissioner Chilton when he said:

[These proposed rules bring] a price transparency to these markets that they haven't had before, and that's a good thing. It's one of the major emphases of the financial reform law. That being said, we recognize that swaps markets and futures markets include different flora and fauna, and we need to be very thoughtful in developing rules for SEFs. Wholesale adoption of futures exchange rules is not appropriate, nor is development of rules that would result in uneconomic advantages or disadvantages for swaps markets.²

The CFTC should not therefore impose on SEFs obligations that essentially turn them into exchanges because this, in addition to not giving effect to Congress' intent in Dodd-Frank, would narrow the diversity of available trading models.

We set out some preliminary comments before responding on the proposed rules amplifying the fifteen Core Principles.

² Speech of Commissioner Bart Chilton to the American Public Gas Association Winter Conference, Fort Myers, Florida, February 1, 2011.



Flexibility in trading models

Thomson Reuters urges the CFTC not to impose undue restrictions on request for quote (“RFQ”) functionality for SEF trading platforms, because such restrictions risk undermining the diversity of trading models that RFQ offers. The diverse over-the-counter swaps market requires the availability of different trading methods.³ While swaps may gravitate to particular types of trading models over time, that migration should be permitted to happen naturally through market forces and choices, not through mandated regulation. Request for quote enables counterparties to access liquidity on a more focused basis whether that be because of the size of the trade, the specific details of the trade or the credit worthiness of the counterparties. Counterparties should be able to determine the number of RFQs depending upon the specifics of the trade.

Thomson Reuters believes that the Securities & Exchange Commission’s proposed approach, which would permit a participant to transmit its request for quote to fewer than all participants, including to one participant, better preserves the distinctive nature of the type of market which the SEF serves and provides the market with greater diversity of trading models.

Pre-trade transparency

Thomson Reuters suggests the CFTC focus pre-trade transparency regulations on indicative pricing. For high-volume liquid instruments trading electronically this can be a continuous best bid and offer (BBO) from multiple price makers. For the more illiquid, less frequently traded instruments this can be an end-of-day indicative price.

Jurisdictional overlaps

Thomson Reuters appreciates the spirit of co-operation which the CFTC and the SEC have exhibited in implementing the provisions of Dodd-Frank within their respective mandates. It would be helpful, however, to have clear guidance as to how the regulatory regime will cover operators who may choose to operate both SEFs and security-based swap execution facilities (SB SEFs) in respect of different markets, and to have an agreed set of requirements applicable to both.

³ Compare SEC Proposed Rule 247.811(e): “A security-based swap execution facility that operates a request-for-quote platform shall create and disseminate through the security-based swap execution facility a composite indicative quote for security-based swaps traded on or through such system, which shall be made available to all participants. The composite indicative quote shall include both composite indicative bids and composite indicative offers.”



Efficiency also dictates that there should be one application process and that entities operating SEF/SB SEFs would then apply the relevant rules to their systems in particular asset classes.

Thomson Reuters also believes that the CFTC (and the SEC) should explicitly recognize that in the global marketplace the requirements for SEFs should be harmonized with regulated trading venues in other jurisdictions (e.g. Europe's Multilateral Trading Facilities) to ensure that there is a level playing field between systems operating on a global basis to avoid regulatory arbitrage which could pose a significant risk to the US as well as the global financial system.

Core Principles

Under the Dodd-Frank Act there is a clear distinction between SEFs and designated contract markets ("DCMs") or exchanges. There was also recognition by Congress that alternatives to traditional DCMs and exchanges were necessary, reflecting the optimum way for the OTC derivatives market to operate. We support the direction of the regulation but want to ensure that the CFTC adopts rules that are clear and allow for flexibility in how trades are executed. This will give the end users choice, but, as importantly, gives them access to liquidity while trading in an efficient and transparent manner on regulated markets. It is important that, in implementing Dodd-Frank, the CFTC maintains this flexibility in applying the Core Principles, and in doing so avoid creating unintended consequences for end-users and the marketplace as a whole.

Core Principle 1 – Compliance with Core Principles

Core Principle 1 states that the SEFs shall have reasonable discretion in establishing the manner in which they comply with the Core Principles unless otherwise determined by the regulators in rules or regulations.

We believe that, taking into account the nature of the Core Principles, SEFs should be able to determine how to best achieve the objectives of Dodd-Frank without overly prescriptive rules or regulations which may limit the flexibility of the regulator and its oversight of the market.

Core Principle 2 – Compliance with Rules

The CFTC notes that Core Principle 2 is largely based on existing requirements for DCMs, including 1) establishing and enforcing rules, (2) providing access, (3) conducting trade practice surveillance, (4) implementing audit trail requirements, and (5) disciplinary rules. Although the principles which govern DCMs are similar, the CFTC Proposed Rules should recognize that SEFs should have reasonable flexibility unless the rules or regulations prescribe otherwise.



The SEF must also provide any eligible contract participant and any independent software vendor with impartial access to the market to capture information that the SEF may use in establishing whether a breach of the CFTC rules or its own rules occurred. Thomson Reuters believes that, although access to SEFs should be non-discriminatory and based on a fair and transparent process, the SEFs, applying fair and objective criteria that takes into account commercial criteria, should each ultimately be able to choose who its participants should be.

SEFs will operate in a highly regulated environment and should be able to ensure that those who have access to execute transactions on their systems are trusted counterparties in order to ensure the smooth operation of the system and to prevent the manipulation of those markets.

Much of Core Principle 2 represents best practices to assure that members of a SEF comply with the rules of the SEF, and Thomson Reuters supports requirements that assure the integrity and neutral position that SEFs must occupy in the market. However, Thomson Reuters believes the required disciplinary processes impose too great an administrative burden on the CFTC as well as registered SEFs. In general, SEFs will be required to maintain rules, including enforcement mechanisms, as a way to assure market participants a level playing field at that particular SEF. In determining whether a market participant should have access to a SEF, SEFs should be able to take into account any previous breaches by that market participant of the rules or regulations applied by a DCM or other SEF. As SEFs earn reputations in the marketplace, Thomson Reuters believes that those with the best reputation will draw participants towards them. Accordingly, Thomson Reuters believes that detailed procedures related to appeals, settlement, and penalties, are less necessary in the SEF marketplace than they are for the DCM space.

Thomson Reuters supports the CFTC's proposal to permit third-parties to provide regulatory compliance solutions regarding the detection of rules violations, surveillance, and audit trail and disciplinary rules. Targeted applications can provide efficient compliance while preserving a firm's security and data integrity.

Core Principle 3 – Swaps not readily susceptible to manipulation

Thomson Reuters believes that the anti-manipulation requirements are an integral part of any reputable trading platform and we would support SEFs being required to have in place appropriate systems and controls to identify and manage situations where the market or individual swap contracts may be susceptible to manipulation or fraud.

Core Principle 4 – Monitoring of trading and trade



Thomson Reuters concurs that a reputable, well-functioning electronic trading platform must have robust systems and controls in place and be able to implement automated trading alerts when circumstances arise. SEFs should be reasonably permitted to determine for themselves what trading criteria to monitor, commensurate with the types of instruments traded, such that computers and human beings are fairly treated in their ability to execute on a quote.

Core Principle 5- Ability to obtain information

Thomson Reuters operates in all of the major markets and trading centers, and is able to transmit information to the various foreign/international regulators when required by law, regulation or contract, to do so.

Core Principle 6 – Position limits, accountability and enforcement

Thomson Reuters is concerned that the same unavailability of data that has caused CFTC Commissioners to express concern about the CFTC's ability to set and enforce position limits presents a significant impediment on the ability of SEFs to do the same. In fact, SEFs will have a more segmented view of the market and will thus be less able to react to a particular market counterparty's position than the CFTC is. Thomson Reuters urges caution and restraint in requiring SEFs to impose position limits beyond what prudent credit and collateral management would require.

Although Thomson Reuters would clearly support and under its rules enforce a determination made by the CFTC to limit a counterparty's trading activity, we believe that such a decision should be made by the regulator and not by the SEF.

Core Principle 7 – Financial integrity of transactions

For swaps subject to clearing requirements, Thomson Reuters agrees that SEFs should assure the secure and prompt routing of the swap transaction to a DCO. For non-cleared swaps, Thomson Reuters believes, aside from ensuring that the counterparties meet the requirements for participating on the SEF, the SEF should be in a neutral position regarding credit and/or collateral arrangements and that this should be primarily a matter between the counterparties.

Core Principle 8 – Emergency authority



The exercise of emergency authority to react to a party's position, potentially liquidating open positions, does not fall within a trading platform's traditional role in the market and Thomson Reuters urges the CFTC to exercise caution in placing SEFs into this quasi-supervisory role.

At the same time, trading platforms do have experience with exercising trading restrictions and suspensions during significant market events. If the CFTC issues binding orders for a SEF to take specific actions, including the liquidation of positions and/or the transfer of open positions (for example, in circumstances leading to a firm being placed in a relevant resolution regime), are within the contractual ability of the SEF, it would be reasonable to expect SEFs to comply.

Core Principle 9 – Timely publication of trading information

Thomson Reuters has already submitted comments regarding SEF recordkeeping and reporting requirements on February 7, 2011. (RIN 3038-AD19).

Further, Thomson Reuters believes that any properly functioning SEF will have the functionality to electronically capture transactions for recordkeeping and reporting purposes on a real time basis subject to certain technological constraints.

However, Thomson Reuters believes that this information should be provided to the swap data repository ("SDR") whose overarching responsibility is the collection and storage of all life-cycle data and that any further publication or dissemination of that information should be the responsibility of the SDR and not the SEF. This would avoid duplication of reporting trades to the market.

Core Principle 10 – Recordkeeping and reporting requirements

Thomson Reuters has previously submitted its comments regarding SEF recordkeeping and reporting requirements on February 7, 2011. (RIN 3038-AD19).

Core Principle 11 – Antitrust Considerations

Thomson Reuters believes that the transparency and impartial access requirements should be sufficient to avoid any antitrust issues or unreasonable restraint of trade.

Core Principle 12 – Conflicts of Interest



Thomson Reuters has previously submitted its comments regarding SEF conflicts of interest and ownership requirements on 17 November 2010. (RIN 3038-AD01).

Thomson Reuters would, however, reiterate that unduly burdensome or inflexible ownership limits or governance requirements are unlikely to secure the legislative objectives of Dodd-Frank and are more likely to deter the establishment of new platforms and the development of existing ones.

We believe that a proper balance should be maintained to ensure that the proposed rules do not inadvertently create another type of conflict within the board which would impact its compliance and efficiency. To impose artificial caps on ownership of SEFs or excessive requirements for independent directors may have a negative impact on both capital and innovation in the markets.

Core Principles 13 – Financial resources and adequacy of resources

In general, Thomson Reuters supports the underlying principle of the legislation and the CFTC's proposal that a SEF has sufficient financial resources to function continuously and in periods of market fluctuation and stress. We also recognize that periodic review of financial resource adequacy is warranted.

Thomson Reuters supports the CFTC's view that capital requirements can be satisfied with resources other than those of the SEF, provided that the capital put forward by the SEF is designated for that purpose and is secure. Thomson Reuters supports the view that assets of affiliated entities within a corporate group should be acceptable for this purpose.

Core Principle 14 – System Safeguards

Thomson Reuters believes that any sound SEF will have robust system safeguards, and that its automated systems should reflect best practices in the industry. A SEF should provide for high standards of information security and have a business continuity/disaster recovery plan. It should have in place resources to ensure the proper functioning of its systems and adequate capacity and performance as well as providing an appropriate level of redundancy and for uninterrupted systems operation.

Core Principle 15 – Designation of Chief Compliance Officer

Thomson Reuters, in its November 17th comments on the CFTC's conflict of interest proposal, suggested that the rigorous requirements imposed on a chief corporate compliance officer (CCO) would mitigate many of the concerns behind the proposed public director requirements. The public reporting required of the CCO would provide significant



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transparency as to the SEF's activities, including whether the SEF is following the recommendations of the public directors and/or the CCO.

CONCLUSION

We would reiterate our general view that these new rules should be implemented in a flexible manner as required under Core Principle 1 and that adequate account be taken of the considerable resources which will be required both in applicant SEFs and the CFTC to put this new regime in place and to ensure that it operates effectively. We believe that, in order to ensure the proper operation of these markets, it may be necessary for the CFTC to adopt a phased-in approach and we would urge avoiding over-hasty rulemaking which could result in unintended consequences for the markets and the broader economy.

We look forward to working with the CFTC on this proposed rule and would welcome the opportunity to meet with CFTC staff to discuss these issues further.

Sincerely,

Nancy C. Gardner
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Thomson Reuters