SWAPS & DERIVATIVES MARKET ASSOCIATION

June 1, 2011

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

Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington DC 20549-1090

Re: Real time public reporting of swap transaction and pricing data including the computation and handling of block trades and large notional swap transactions.

Dear Sir/Madam Secretaries,

The Swaps & Derivatives Market Association ("SDMA") appreciates the opportunity to provide comments to the Commodity Futures Trading Commission ("CFTC") and the Securities and Exchange Commission ("SEC") (CFTC and SEC collectively the "Commissions") on the CFTC's Notice of Proposed Rulemaking regarding part 43 of Title 17 of the Code of Federal Regulation ("CFR 17") entitled "Real-Time Public Reporting of Swap Transaction Data" and the SEC's Notice of Proposed Rulemaking regarding parts 240 and 242 of Title 17 CFR entitled "Regulation SBSR-Reporting and Dissemination of Security-Based Swap Information".

The SDMA is a financial markets trade group of United States and internationally based broker-dealers, futures commission merchants and investment managers participating in all segments of the exchange-traded and over-the-counter derivatives and securities markets. The SDMA was created as a nonprofit organization in January 2010 and today has over 20+ member institutions representing all facets of derivatives execution and clearing.

The SDMA supports Title VII of the Dodd-Frank Act and commends the diligent, thoughtful and complete work that the teams at both the CFTC and SEC have done in preparing rules necessary for the OTC derivatives market place to comply with the Dodd-Frank Act.

Introduction

The Dodd-Frank act seeks to achieve both pre-trade and post-trade transparency for previously unregulated swap markets. Post-trade transparency is addressed in the proposed rules for real time public reporting of swap transactions and pricing data. These rules are designed to provide all market participants equal access to transaction information. The proposed rules on real time public reporting cover what data must be reported, the timing of reporting, parties responsible for reporting, the handling of block trades and large notional swaps as well as the procedures for determining the appropriate minimum block size for transactions.

There are 2 important features in the proposed rules regarding block trades or large notional size trades. The time delay between execution and public reporting is the first important feature. This time delay is currently set at 15 minutes. The second feature is the reporting method that would not disclose the actual size of trades greater than $250 million but would instead represent this category of trade as being $250+.

This last feature is problematic in that it contradicts the other prescribed rules for determining the appropriate minimum block size for certain swap transactions. Setting a pre-defined notional cap for reporting of block trades is arbitrary, limits flexibility and can allow for under-reporting of market information for certain swap instruments. For example, average transaction size for 2 year interest rate swaps is approximately $400 million of notional. Using a hard cap of $250 million would treat a below average trade as if it were a potential market moving block trade.

Time Delay for Block Trade/Large Notional Swaps

With respect to block trading the SDMA believes that no matter what the method of trade execution, all block trades must: (1) be reported within 15 minutes of execution, and (2) contain the time, price and quantity of the instrument traded. This time delay would adequately balance the market's need for information and the need for market participants quoting large size to have sufficient time to trade out of that position. Market participants should have all the market information available to them – especially block trades that have the ability to move a market -- in a timely manner. The reporting of block trades no later than 15 minutes after execution will create enhanced liquidity, strengthen market integrity and promote transparency and fair dealing. The goals of the Dodd-Frank Act cannot be met if market participants are able to use block trading as a method of under-reporting trade activity.

The current proposed rules require a 15 minute delay for block trades in order to protect liquidity providers and promote liquidity of large trades. Given the fact that the current CFTC rules, (43.4) *"swaps executed on or pursuant to the rules of a swap market",* do not specify the actual amount of notional traded above $250 million leaves the reporting window of 15 minutes disproportionately long for certain trades and altogether unnecessary for others.

Appropriate Minimum Block Size

Proposed 43.5 (g) (1) outlines the procedures and calculations for determining minimum block size. Both a distribution test and a multiple test, where "social size" is multiplied by the "block multiple" are applied to determine an appropriate minimum block size. The SDMA supports the dual test methodology as it seeks to balance the distribution of trades with the standard trade size.

Given that the appropriate minimum block size is the responsibility of the SDR to calculate, the regulators must ensure that all SDRs are duly licensed. SDRs calculation methods should be approved by the regulatory committee. SDR data collection methods must also be approved and meet a minimum statistical significance test and market standard.

Since there could be multiple SDRs collecting data on like assets/markets the possibility could arise that an SDR could be established with the sole intent of collecting a narrow set of data in order to misrepresent trade volumes and or block sizes so as to benefit certain trade platforms or to keep trade reporting on a lagged basis. In the event that multiple SDRs are collecting data on the same swap instruments 43.5 (g) v. should call for taking the largest of the established block sizes/large notional amounts where 2 or more are available.

Reporting of Block Trades/Large Notional Swaps

As discussed above, proposed rule 43.5 (g) (1) takes detailed steps in establishing block trade amounts for swap instruments. The reporting requirement as outlined in 43.4 (i) negates the appropriate minimum block size formula by directly establishing a pre-determined notional limit of $250+ as being the cut off point for reporting on a block trade. This figure will be too low for certain types of swap instruments and will allow for standard market size transactions to trade with a much lower degree of pre-trade and post-trade transparency.

The average size of a ten year USD interest rate swap was $75 MM during 2010*. Applying the multiple rule as defined in 43.5 (g) (1) to this very common rate transaction would by definition establish the block size as being $375 million. Further to this point the average size for shorter maturity interest rate swaps is proportionately higher given the shorter duration. Applying a $250+ pre-determined notional cap would allow average size and below average size interest rate swaps to be reported like block trades contravening the distribution test as well as the multiple test. If a rounding convention is required, rule 43.4 (i) should set the upper band, currently 250+, to correspond with the appropriate minimum block size limit established for each instrument. Reporting the actual notional amount traded would negate this rule altogether.

*TriOptima trade-level interest rate swap repository data over a 45-trading day period from August 1 to September 31, 2010

Timing of Reporting

CFTC rules state that swap transactions will be reported to a real-time disseminator as soon as technologically practicable. The real time disseminator will make this data available to the public as soon as technologically practicable. Reporting of block trades/large notional swaps will be delayed 15 minutes.

Since it is the requirement of the swap market (SEF or DCM) to report trades, regulators should have one trade reporting requirement for all SEFs regardless of SEF execution method. It has been suggested that voice/hybrid execution systems should be allowed a longer or slower trade reporting time window over their electronic competitors.

Firstly, such a bifurcated requirement could result in conflicting sets of data which would result in an inaccurate trade tape confusing the market and regulator alike. It would clearly make price discovery more difficult. Such confusion could become more accentuated in times of market crisis and volatility just as the market needs transparency most.

Secondly, such a bifurcation might also create a ‘race to the slowest’ among SEF’s as certain market participants, seeking to shroud their trading, favor slower reporting SEF’s with their business over more efficient and transparent counterparts. Thus, the regulators should specify that all counterparties, regardless of execution method should conform to one universal trade time reporting standard.

Establishing Block Sizes prior to SDRs mandatory implementation

An implementation date of January 2012 has been suggested for the initial setting of block trades in order to allow for data collection and preparation for real time reporting requirements. The data for swap transaction is available today and the current methodologies can be applied thus establishing block trade sizes without any delay. SDRs exist today and are functional for most products that will be mandated to be cleared. SEFs will have real time reporting capabilities, consistent with Core Principle 9, and can supply trade data to SDRs at time of execution.

Conclusion

Post-trade transparency is not only a stated goal of the Dodd-Frank Act it is also an instrumental component in establishing market integrity. By creating real time access to trade information for all market participants', confidence in markets increases and this transparency fosters greater liquidity. The balance between disseminating information to the public on a real time basis while protecting price providers who enter large trades (block size) from being disadvantaged is critical in optimizing the liquidity of a marketplace.

The key formulas for defining block size have been well designed by the CFTC and SEC. The dual tests established are both reasonable and flexible and should allow for the proper balance to be struck between protecting liquidity providers without allowing for under-reporting of market information. Given the dynamic nature of markets and the potential for the creation of new products the procedures and calculation methods must remain flexible. Establishing a pre-set limit, like the existing notional limit for swaps of $250 million, for reporting is arbitrary and contravenes the formulaic approach to establishing block sizes.

Respectfully,

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