

Geneva Energy Markets, LLC

July 29, 2011

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

RE: Proposed Rulemaking on Core Principles and Other Requirements for Swap Execution Facilities (RIN 3038-AD18)

Dear Mr. Stawick:

Geneva Energy Markets, LLC (“GEM”) appreciates the opportunity to comment on the CFTC’s proposed rule on requirements for Swap Execution Facilities (“SEFs”) ¹ as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”). GEM supports the goals of Dodd-Frank and believes in open, competitive, and structurally sound markets.

Existing methods, primarily voice brokering, for requesting and providing bids for complex oil (and related products) swaps have functioned well through a variety of market cycles and volatility levels due to the unique nature of the energy markets. Additionally, most of these transactions are cleared and reported, providing significant price discovery and transparency to the markets and therefore already meet many of the goals of Dodd-Frank.

For reasons discussed below, GEM believes that request for quote (“RFQ”) anonymity and SEF mandates in the proposed rule will disrupt these important markets and reduce the willingness of legitimate market participants to provide representative quotes. Such results run counter to the goals of Dodd-Frank and are detrimental to end-users and producers.

GEM Background

GEM is an active participant in the energy markets, providing significant liquidity by making markets on electronic exchanges and in cleared OTC energy swaps. GEM has substantial expertise in the oil markets and related products (heating oil, RBOB, etc.), and benefits end-users and producers by providing efficient quotes across a range of complex swap and future instruments. GEM is not a bank or financial institution, does not manage or maintain customer money, and only trades exchange-listed, cleared products.

¹ “Core Principles and Other Requirements for Swap Execution Facilities,” 76 Fed. Reg. 1214 (January 7, 2011).

RFQ Anonymity

The oil (and related products) swaps market presents unique challenges for electronic RFQ-style trading. Specifically, the myriad combination of products and periods creates a time-intensive quoting process in order to meet the unique needs of a given counterparty. Voice brokering works well in this environment, where the legitimacy of the quote request can be discerned to support the effort and risk of capital required to provide, and hold to, a best quote.

Note that RFQ systems currently exist for oil swaps and futures,² and are not used by any providers of liquidity to the oil markets. Most dealers stopped interacting with the system due to the large number of RFQs submitted with no response once the dealer provided a representative quote. Further, the anonymity and ease of submitting RFQs can lead to potential abuses as RFQs can be submitted with parameters that are more of an attempt to move illiquid portions of the markets than legitimate pricing activity. Given the depth of the oil markets it is highly unlikely that such activity would result in price movement. However, voice brokered trading minimizes the potential for disruptive, non-bona fide market activity since the market participants can self-police dealers and traders who do not submit bona fide requests for quote.

SEF Mandates

If the Commission does want to devise a system to determine which products have the greatest chance of success of trading on a SEF, GEM believes the best indicator to analyze is the number of transactions currently executed in that product on an average day. Few transactions indicate that it will not be economically feasible for an end-user or dealer to invest in the technical programming, monitoring, and training needed to support the ability to effectively quote that product on a SEF.

We estimate that an average minimum of twenty trades per day are needed to create any dealer interest in trading a given product on a SEF. Notably, the only product in the oil-related markets close to this level over the past six months is Light Sweet Crude Oil (WTI) which we estimate averages ten trades daily on CME's Clearport®. When combined with the likely number of WTI trades occurring bilaterally, the aggregate average number of WTI daily trades is around twenty.

To provide perspective on the viability of SEF trading of oil market swaps, the next most active market in that category is gasoline (RBOB) with an average daily volume of approximately six. This is not sufficient volume to drive dealer interest onto a SEF. While we believe it is still unlikely that even WTI will trade successfully via a SEF, it would be the most logical product to begin experimental SEF trading to determine the overall viability of SEFs in the oil-related swaps markets.

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² For example, within IntercontinentalExchange's WebICE platform.

GEM greatly appreciates the opportunity to submit our views on these important issues before the CFTC. Do not hesitate to contact us if you have any questions regarding the comments in this letter.

Sincerely,

/s/ Mark Vonderheide

Managing Partner
Geneva Energy Markets, LLC

/s/ Robert S. Creamer

President
Geneva Trading USA, LLC