

# Geneva Energy Markets, LLC

February 13, 2012

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

**RE: Process for a Designated Contract Market or Swap Execution Facility to Make a Swap Available to Trade (RIN 3038-AD18)**

Dear Mr. Stawick:

Geneva Energy Markets, LLC (“GEM”) appreciates the opportunity to comment on the CFTC’s proposed rule on Process for a Designated Contract Market or Swap Execution Facility to Make a Swap Available to Trade 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.

GEM also believes that voice broking in the oil markets plays a crucial role in facilitating liquidity and providing pre-trade price transparency to the market participants. Mandating certain contracts to trade on a Designated Contract Market (“DCM”) or Swap Execution Facility (“SEF”), as this proposed rule requires, could materially disrupt this important component of liquidity and price discovery.

GEM Background

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

Determination for Available To Trade

The consequences of making a swap available to trade are much more serious than it may sound. In spite of the euphemism, one must not forget that this designation actually restricts the availability of a swap to a single means of execution--electronic. In particular, the designation potentially prohibits voice broking, a means of execution to which certain swaps have naturally migrated, developing highly competitive, liquid, and orderly markets.

This is certainly the case for oil swaps. We hope that, given GEM’s considerable experience and expert knowledge of the oil swaps market, we can provide sensible and realistic insight into the likely consequences of an unnecessarily prescriptive implementation of the Dodd-Frank legislation.

The vast majority of all actively traded oil swaps (and the only ones likely to receive the clearing mandate) are equivalent--that is, their cash flows are identical--to combinations of electronically-traded oil futures; there is no mystery to these swaps. The existence of an underlying futures market, liquid and regulated, implies pre-trade price transparency in the swaps market. Anyone can take readily and publicly available futures data and, with a little addition and subtraction, calculate the fair value of any relevant oil swap. It would be surprising to learn of a market participant who does not have a spreadsheet configured to convert futures data into swaps values. In addition, traders regularly use voice brokers to double-check their own price calculations.

Restricting swaps execution to an electronic market, either as an order book or as an RFQ system, will not yield additional pre-trade price transparency. First, as discussed above, all market participants will already know approximate price levels before they seek a quote. Moreover, the electronic quotes they will receive will invariably be worse than the quotes provided in a voice-brokered market, as dealers will not be willing to reveal aggressive prices in a fast-moving electronic market. The result will be a widening of bid-offer spreads. In effect, the superficial transparency that the electronic facility may afford will be paid for in higher transaction costs and less liquid markets.

It will also be very difficult for an electronic price facility to convey the nuances of liquidity in an episodic market. A market participant wants to know how much volume can be sold at a given price, recognizing that as certain thresholds are crossed, the price will decrease as volume increases. Through human intermediation and negotiation, a voice broker can effectively present liquidity levels throughout the day and provide guidance as it changes rapidly in volatile markets.

A myopic pursuit of public pre-trade transparency obscures sight of the dangerous consequences. It is very likely that a mandate for electronic trading will evaporate the existing liquidity of the oil swaps market. While liquid in aggregate, specific oil swaps trade in large sizes and relatively infrequently (e.g., 10-20 times per day in the most active product, WTI), commanding a particular need for the voice broker. It will be hard to call it a more transparent market with so few bids and offers so wide apart on a screen.

The devastating effects of a less liquid market will be felt by all market participants. Volume will plummet as end-users will be forced to trade their hedges in less suitable, but more liquid, block futures. While block futures are liquid and may be economically equivalent to swaps, they do not provide the flexibility needed by commercials and end-users to efficiently hedge their business. As a result, transaction costs will soar. We will witness the transparent destruction of the vibrant oil swaps market that exists today.

The determination of which swaps should be made available to trade is a challenging task, as care must be taken to avoid stifling efficiently functioning markets such as oil. Moreover, in order to prevent bias, it is a task that must be left to the CFTC. The factors to consider as presented in the proposed rules are appropriate; however, an assessment of pre-trade transparency in the existing state of a market should also be considered.

### Conclusion

We urge the CFTC to seriously consider the points made by active oil swaps dealers and participants such as ourselves, who have consistently warned of the impact on liquidity and

transaction costs resulting from the elimination of voice broking. It is our recommendation that the CFTC proceed with extreme caution, avoiding any sudden and sweeping mandates across all swaps markets. Such mandates stand to harmfully disrupt today's orderly, efficient, and highly competitive oil swaps market, which has systematically chosen other means of execution.

GEM appreciates the opportunity to submit our views on these important issues before the CFTC. Do not hesitate to contact us at (212) 430-3350 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