March 16, 2012

Mr. David A. Stawick, Secretary of the Commission
Commodity Futures Trading Commission
Washington, D.C.

By email

Reference: RIN # 3038-AD08
Docket: CFTC-2012-0037

Dear Mr. Stawick:

Kinetix Trading Solutions is a software and services firm offering solutions in the area of derivatives trade capture, monitoring and clearing. We are writing this letter to comment on the Commission's proposed rule entitled Procedures to Establish Appropriate Minimum Block Sizes for Large Notional Off-Facility Swaps and Block Trades.

We understand that the purpose of the proposed rule is to strike an appropriate balance between 1) the need to capture as many swaps trades both on SEFs or DCMs and for real-time reporting as possible and 2) the need to protect liquidity providers who are doing large transactions (compared to average trade sizes) from having their positions exposed immediately to competitors.

We understand that the proposed calculation methodology is as follows:

1. Group the products into buckets for calculation purposes.
2. Collect trade volume data for all products in the bucket over a specified time period, say a year.
3. Sort the trades from smallest to largest.
4. Total up the trade volume for the bucket, and multiply that number by the percentage you want to capture.
5. Sum the trade volumes cumulatively until the cumulative total equals or exceeds the value determined in Step 4.
6. The trade size at the point reached in Step 5 is the block threshold.

We believe that the calculation method above, designed to capture a specified percentage of trading volume for both listed trading (where appropriate) and real-time reporting, is a good method in general, but we believe that it has two potential flaws – one minor and one major – which can and should be rectified.

The minor potential flaw is that it depends on historical trading volume to set thresholds for the future. If trading volumes stay about the same over time, the calculation will work as planned. However, if trading volumes change sharply after the calculation is done, the resulting threshold will not achieve the desired result. If volumes rise sharply, the threshold will capture a smaller portion of the trading volume

for listed trading and real-time reporting than planned. If volumes drop sharply, more of the larger trades than planned will be forced onto SEFs/DCMs and into real-time reporting. This potential flaw can be rectified by running the calculations relatively often, say, once a month.

The major flaw comes from including in a bucket products with sharply different trading volumes. In that instance, the products with lower volumes (and presumably lower liquidity) will have block thresholds so high, relatively speaking, that they may never be reached. A classic example of this would be to include the more exotic interest rate products (swaptions, barrier swaps, knock-ins and knock-outs) in the same bucket as vanilla fixed-floating swaps (however the bucket is defined), which we understand to be the plan under the proposed rule. The very high average trade size of the vanilla swaps would push the threshold of any such bucket so high that many of the exotic products would never trade above the threshold, even if some individual trades in those products would exceed the total average volume for a week or more. Many of these products may not be MAT by any SEF/DCM, but their real-time reporting would expose liquidity providers to attack by their competitors as soon as the trade was published.

The obvious solution to this issue is to bucket products by average trade volume, as well as by product type or tenor. Then the calculation above would produce a threshold which would do the job it was designed to do. In fact, the ideal solution would be to run the above calculation on every UPI, which would generate a threshold specific to each product. Our research on the resources necessary to do this calculation monthly on 10,000 UPIs with an average of 10,000 transactions each is that it would require a medium sized dedicated server, which puts it well within the capacity of the CFTC or SEC, or any third party you might choose. This approach would require, in addition, that the agency make the thresholds available to market participants in an automated way, so they can download them relatively frequently into their order processing systems. We urge the Commission to consider these modifications to this rule.

We would be please to discuss this comment letter with the CFTC's commissioners or staff at your convenience.

Very truly yours,

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