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By Comments Online process at: <http://comments.cftc.gov>

May 14, 2012

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

Re: Further Notice of Proposed Rulemaking: Procedures to Establish Appropriate Minimum Block Sizes for Large Notional Off-Facility Swaps and Block Trades; RIN 3038-AD08

Dear Secretary Stawick:

Freddie Mac is pleased to submit these comments in response to the further notice of proposed rulemaking regarding the procedures to establish appropriate minimum block sizes for large notional off-facility swaps and block trades, published by the Commodity Futures Trading Commission (the "Commission") on March 15, 2012 (the "Proposal")¹ pursuant to Section 727 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act").

Freddie Mac was chartered by Congress in 1970 with a public mission to stabilize the nation's residential mortgage markets and expand opportunities for homeownership and affordable rental housing. Our statutory mission is to provide liquidity, stability and affordability to the U.S. housing market. Freddie Mac uses swaps to hedge large-scale commercial risks on an ongoing basis. Freddie Mac currently operates under the direction of the Federal Housing Finance Agency as our Conservator.

Summary

First, Freddie Mac supports the goal of increasing transparency in the swaps markets. We are concerned, however, that the Proposal's relevant minimum block sizes will materially reduce market liquidity. Therefore, Freddie Mac urges the Commission to consider reducing these minimum block sizes. Specifically, we recommend that the Commission adopt a 50-percent notional amount calculation methodology for determining the appropriate minimum block sizes for interest rate swaps. Thereafter, as the Commission obtains more comprehensive data about the liquidity of the swaps markets over time, it might consider raising the minimum block sizes.

Discussion

Freddie Mac routinely executes interest rates swap transactions in extremely large notional sizes in order to hedge its interest rate risk in connection with mortgage transactions. In our experience, these swap transactions frequently have the potential to move prices significantly. To avoid adverse market impacts, Freddie Mac believes that the implementation of minimum block sizes for determining time delays in public reporting of swap transactions requires care, as comprehensive market data for swaps is not currently available. In a previous comment letter,

¹ 77 Fed. Reg. 15460.

Freddie Mac expressed its concern about minimum block sizes and the appropriate intervals for public reporting time delays.²

We believe the methodology under the Proposal would establish block size levels that, in the absence of comprehensive data, are too high and inflexible. We acknowledge that the Commission developed the proposed initial minimum block sizes for interest rate swaps (at proposed Appendix F) by using “non-public swap data to make inferences about patterns of trading activity, price impact and liquidity in the market for” interest rate swaps. 77 Fed. Reg. 15468-74 and 15520. It is our understanding that the interest rate data set is derived from a single three-month period (June 1 through August 31, 2010) and is provided by one source (MarkitSERV). 77 Fed. Reg. 15468. As a result, we think this interest rate data set may not be comprehensive enough to form the basis of the proposed initial minimum block sizes – particularly where the proposed post-initial appropriate minimum block sizes are determined after transaction and pricing data have been collected for at least one year. See Proposed § 43.6(f)(2). Furthermore, we do not believe the Proposal contemplates that the Commission would consider reliable data collected during the initial period to determine whether it is applying an appropriate percentage notional amount calculation to produce interest rate swap minimum block sizes for the post-initial implementation period. Instead, it applies the same “67-percent notional amount calculation” to the initial period as to the post-initial period. Compare Proposed § 43.6(e)(1) and Appendix F with Proposed § 43.6(f)(2).

We submit that, in the absence of more comprehensive data about the liquidity and depth of swaps markets, the initial rules adopted by the Commission should establish size thresholds that are designed to ensure that market participants with a need to trade in large sizes, such as Freddie Mac, may do so without exposure to undue market risks. Accordingly, we recommend that the Commission apply a “50-percent notional amount calculation” methodology for determining the initial appropriate minimum block size for interest rate swaps. See Question 33; 77 Fed. Reg. 15480-82. We further recommend that the Commission apply this methodology to determine, as a preliminary matter, the post-initial appropriate minimum block size for interest rate swaps. As the Commission collects data about the liquidity of the swaps markets and the effects of the Commission’s reporting rules, it may be appropriate to revisit these block sizes in order to further increase transparency.

Our suggested approach would be consistent with the Commission’s justified interest in “an incremental approach to achieve real-time price transparency in swaps markets.” 77 Fed. Reg. 15480. It would also be consistent with the Commission’s statutory mandate under the Dodd-Frank Act to take into account whether public disclosure will materially reduce market liquidity. Commodity Exchange Act § 2(a)(13)(E)(iv).

* * *

Freddie Mac appreciates the opportunity to provide our views in response to the Proposal. Please contact me if you have any questions or would like further information.

Sincerely,



Wendell J. Chambliss

² Letter from Lisa M. Ledbetter to David A. Stawick (Feb. 7, 2011).