

**TeraExchange**<sup>sm</sup>

**LIBERATING OTC**<sup>sm</sup>

May 14, 2012

Mr. David A Stawick  
Secretary  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, N.W.  
Washington, D.C. 20581

**Re: RIN 3038-AD08 Procedures to Establish Appropriate Minimum Block Sizes  
for Large Notional Off-Facility Swaps and Block Traders**

Dear Mr. Stawick,

The Commodity Futures Trading Commission ("CFTC" or "Commission") has requested public comment on proposed regulations that would define the criteria for grouping swaps into separate swap categories and would establish methodologies for setting appropriate minimum block sizes for each swap category. In addition, the Commission is proposing further measures under the Commission's regulations to prevent the public disclosure of the identities, business transactions and market positions of swap market participants.

Our firm, Spring Trading, Inc. ("Spring Trading"), operates a service called TeraExchange. Spring Trading has filed notice with the Commission for operation as an exempt board of trade ("EBOT") and will submit a name change to shift EBOT status to TeraExchange. TeraExchange intends to apply to the CFTC for designation as a swap execution facility ("SEF") and/or as a DCM and with the Securities and Exchange Commission as a security-based ("SB") SEF, and anticipates listing all cleared swap products for trading, including credit default, interest rate (IRS), energy, agricultural and FX swaps. TeraExchange will provide the market with a fully transparent electronic central limit order book ("CLOB") execution facility for clearable swaps, along with a sophisticated underlying cross-asset trading, data and analytics platform. These attributes will enable participants to connect to TeraExchange as well as to other liquidity venues across multiple regions and asset classes. For the benefit of the OTC clearing members and their customers, TeraExchange also will provide a pre-trade credit check engine to ensure real, executable bids and offers on its CLOB, and will also provide voice/block trade assistance. Currently, TeraExchange is certified to clear with the CME for several OTC products and anticipates establishing clearing relationships with additional authorized derivatives clearing organizations in the near future.

In an email dated February 22, 2012, we urged the CFTC to raise the threshold for IRS that was initially proposed of 50% of notional value to 67%. We are extremely grateful to the Commission for its responsiveness in raising the proposed IRS limit to 67% and appreciate the opportunity to submit a formal comment letter on the proposal. This comment letter specifically

addresses the issue of block size thresholds for IRS, how often the block trading parameters would be reassessed and public disclosure of swap market participants.

As stated previously, we support the 67% block threshold formulas for interest rate swaps. Prior to being named CEO of TeraExchange, I was an institutional derivatives trader for over 20 years, with a special focus on interest rate swaps. Based on my experience, a lower threshold such as 50% would result in block trade notional sizes for IRS that are significantly below the round lot or “average” size for IRS transactions. Accordingly, on behalf of TeraExchange, I strongly urge the Commission to retain the proposed IRS threshold of 67% of the notional value of IRS trades in a particular tenor and currency rather than relying on a formula based on a lower level. This 67% threshold is a starting point. We feel this is still low as it would be below the round lot or “average” trade value for such trades. For example, under a 67% formula, the block trade size for ten-year IRS trades would be set at \$200 million, which is still below the round lot size of approximately \$250 million for such trades based on my experience.

Based on the high level of market participant interest, we anticipate that electronification and central clearing in the OTC marketplace will move at a rapid pace. As such, in order to best refine the initial thresholds, rather than locking these formulas into place for a rigid initial one-year period, TeraExchange also recommends quarterly reviews. We believe that quarterly assessments should begin as soon as SDR data is available for review, incorporating not just executed trades but also available non-proprietary market depth data per the query in question 35 of the proposed rulemaking in order to gather a more comprehensive view of available liquidity. More frequent reviews will be more responsive to a dynamic and growing market.

Pertaining to the issues of public disclosure, we support further measures under the Commission’s regulations to prevent the public disclosure of the identities, business transactions and market positions of swap market participants. We, along with most market participants, agree that central clearing of OTC derivatives is crucial towards eliminating the enormous systemic risk inherent in the current bi-lateral marketplace. For a central clearing model to function effectively, it is critical that market participants maintain anonymity when transacting these markets, on par with what has been occurring across other markets and asset classes for over 100 years. In equities for example, participants do not know the identity of the counterparty they are buying GE from, or which counterparty they are selling GOOG to, since a centralized party is standing behind and clearing these individual trades. More sophisticated participants would very much like to know identities of their counterparties, as this knowledge would give them an unfair advantage and enable them to manipulate the markets for their own benefit, similarly to what happens today in the bi-lateral OTC markets. Participants with the strongest and deepest resources would win, while the smaller tier of end users would lose. This will discourage the broadest levels of participation and hinder the democratization and growth of liquidity for these markets to function in the most effective and transparent manner. The Commission should always have the ability to collect, review and analyze all necessary



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data, on both individual and collective bases, in order to fulfill its mandate to effectively regulate these markets. We strongly discourage making publically available any detailed data on the identity of specific participants and their activities, but rather disclose a subset of this data on a collective basis at a later date according to pre-set public reporting intervals.

In conclusion, TeraExchange very much appreciates the diligence, insight, and hard work of the CFTC and its staff as the development of SEF regulation unfolds. As to the block trading thresholds, while we believe that the 67% notional value threshold is a practical starting point, but taking into account the notional trade amounts occurring today, this amount is likely still too low. Once the thresholds are set initially, we recommend quarterly reassessments based on trade data as well as non-proprietary market depth data. We commend the recommendations by the Commission to prevent the public disclosure of swap market participants, which we believe are absolutely necessary towards ensuring a thriving and even more importantly, a fair marketplace. We look forward to further working with the CFTC to achieve the Congressional objective of promoting swap trading on SEFs. If you have any comments or questions about our comment letter or SEF issues in general, please contact me at [cmartin@teraexchange.com](mailto:cmartin@teraexchange.com) or at (908) 273- 8288. Thank you very much.

Respectfully,



Christian Martin  
Chief Executive Officer

Spring Trading, Inc.  
25 DeForest Avenue  
Summit, NJ 07901