

May 22, 2012

David A. Stawick
Secretary
Commodity Futures Trading Commission
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Washington, DC 20581

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Re: **RIN 3038-AD08: Procedures to Establish Appropriate Minimum Block Sizes for Large Notional Off-Facility Swaps and Block Trades, 77 Fed. Reg. 15460 (March 15, 2012)**

Dear Mr. Stawick:

Jefferies & Company, Inc. (“Jefferies”) appreciates the opportunity to comment on the above-captioned proposed rules (“Proposed Rules”) of the Commodity Futures Trading Commission (the “Commission” or “CFTC”). We support the Commission in adopting minimum block sizes for block trades that strike an appropriate balance between promoting the liquidity that block trades provide to the market and achieving the transparency and oversight goals mandated under Title VII of the Dodd-Frank Act.

Jefferies is a wholly-owned subsidiary of Jefferies Group, Inc. (“Jefferies Group”), a global securities and investment banking firm which has served companies and their investors for nearly 50 years. Jefferies Group is a publicly-traded company with a market capitalization of approximately \$3.4 billion and annual revenues of \$2.6 billion (latest twelve months ended February 29, 2012). We currently employ over 3,850 people in offices in more than 30 cities worldwide and our approximately 1,500 sales and trading professionals transact business as a principal to, and on behalf of, thousands of institutional investors in most major markets in the world today.

We support the proposed 67% block threshold for Interest Rate and Credit Swaps.

Jefferies supports the proposed 67% block threshold for interest rate and credit swaps and opposes a 50% block threshold as described in Q33 of the Commission’s Request for Comment. Jefferies believes that setting appropriate block thresholds means striking a balance between transparency and liquidity. Block thresholds that are set too high could impede liquidity while block thresholds set too low will obscure price discovery and create information asymmetry.

In setting block thresholds, the CFTC must recognize the specifics of each asset class and apply appropriate measures that satisfy Congressional intent while offering flexibility to adapt as

market participation evolves under new regulation and new modes of execution. We believe that a 67% block threshold is consistent with Congress's intent that "the guiding principle in setting appropriate block-trade levels should be that the *vast majority* of swap transactions should be exposed to the public market through exchange [or SEF] trading...(emphasis added)."¹ Setting the block threshold at 50% would push too large a percentage of trades in to the category that would have reporting delays and shielded market data, leaving the reported data of diminished value to the broader market.

The proposed CFTC rules would set the opening block threshold levels comfortably inside where the observed liquidity of the current interest rate and credit default swap markets stand. In interest rate swaps, the dollar value change per 1 basis point movement in rates (DV01) is typically seen as the primary measure of risk. In comparing the initial appropriate minimum block sizes for interest rate swaps in DV01 terms, the 67% measure is well within observed liquidity. Applying the 50% measure moves the block threshold to observed liquidity levels that are available from a single market maker.

We support the *Market Depth and Breadth* approach for the post-initial period.

In response to Q35.a in the Commission's Request for Comment as to whether, as an alternative approach, the Commission should determine appropriate minimum block sizes based on a measure of market depth and breadth, we support the Commission's use of market depth and breadth as additional measures of market liquidity for determining appropriate minimum block sizes as the data becomes publicly available.

No single measure of market activity could possibly define the total amount of potential liquidity available in an asset class. As more trading takes place on exchanges and SEFs and as more data is reported to SDRs, the ability to calibrate block threshold levels will improve. The proposal to look beyond traded volume in any swap contract or swap category and measure liquidity by observing both market depth and market breadth is a good step toward defining available liquidity in specified markets.

We support the proposal to include multiple levels of analysis for each asset class in order for the proper balance of liquidity and transparency to be achieved. These measures can be refined over time as more market data becomes available. This test compliments the 67% block threshold and will serve as a constructive long-term solution but in the initial period, the 67% notional amount methodology as proposed by the Commission will ensure that functional minimum block sizes are in place which can be refined as appropriate as subsequent data becomes available.

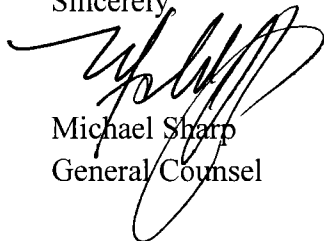
¹ Congressional Record—Senate, S5922 (July 15, 2010).

Conclusion

Jefferies believes that by adopting the proposed 67% block trade threshold for interest rate and credit swaps, coupled with a market depth and breadth approach in the post-initial period, the CFTC will have struck a thoughtful balance in establishing appropriate minimum block sizes for block trades. For that reason we support the Proposed Rules.

Jefferies appreciates the opportunity to submit these comments on the proposed rules. If the Commission has any questions concerning the matters discussed in this letter, please contact the undersigned at (212) 707-6409.

Sincerely

A handwritten signature in black ink, appearing to read 'Michael Sharp', is written over the typed name and title.

Michael Sharp
General Counsel