



SWAPS & DERIVATIVES MARKET ASSOCIATION

September 14, 2012

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

Re: Margin Requirements for Uncleared Swaps for Swap Dealers and Major Swap Participants RIN 3038-AC97

Dear Mr. Stawick,

The Swaps and Markets Association (“SDMA”) submits this letter to comment on the Commodity Futures Trading Commission’s (the “Commission”) proposed rules regarding “Margin Requirements for Uncleared Swap Dealers and Major Swap Participants” (“Proposed Rules”) and the consultative paper published by the Basel Committee on Banking and the International Organization of Securities Commissions entitled “Margin Requirements for Non-Centrally Cleared Derivatives” (“Consultative Paper”).

The SDMA is a non-profit financial trade group formed in 2010 to support the goals of the Dodd Frank Act. It believes that systematic risk of OTC derivatives can be mitigated through their regulation, the creation of central clearing, and by ensuring open and transparent access to ensure greater competition, lower transaction costs and greater liquidity. The SDMA is comprised of many US and internationally based broker-dealers, investment banks, futures commission merchants and asset managers participating in all segments of the exchange-traded and over-the-counter derivatives and securities markets.

The SDMA strongly supports the imposition of margin for uncleared swaps. Uncleared swaps pose a greater financial risk than cleared swaps, because there is no safety net when a counterparty defaults. As a result the non-defaulting party to an uncleared swap must use its own capital, which may be depleted in times of financial stress, to absorb the financial loss of a counterparty default. The depletion of the non-defaulting party’s capital increases the risk that it will have insufficient capital to

meet other financial obligations, thus increasing systemic risk. The imposition of margin for uncleared swaps provides financial resources, in the form of margin, that the non-defaulting party can use to counteract the financial impact of a counterparty default. As a result, the non-defaulting counterparty does not deplete its own capital in the event of counterparty default.

The SDMA strongly believes that both initial and variation margin should be required for uncleared swaps, as these types of margin serve different purposes. Initial margin serves as a performance bond to protect against futures losses. Variation margin addresses the daily change in market value.

The SDMA does not support minimum thresholds, below which counterparties would have the option to collect initial margin that are suggested in the Consultative Paper. Nor does the SDMA support the netting of margin for uncleared swaps. The SDMA strongly believes that the full margining of uncleared swaps is essential to the reduction of systemic risk.

The SDMA strongly believes the standards for setting margin for uncleared swaps must be consistent, transparent and designed to reduce systemic risk and promote central clearing. Consistent and transparent standards promote market stability, provide a level playing field and are essential to preventing swap market participants from engaging in regulatory arbitrage. The promotion of central clearing is essential to the reduction of systemic risk.

Since a default typically occurs during times of financial distress, the SDMA also strongly believes that collateral posted for margin should be an asset that has a value that can be easily determined and liquidated. The SDMA strongly supports the CFTC's approach to only accept cash, treasuries or agency debentures as collateral for margin. Margin collateral should be held by independent custodians to insure that in times of financial stress the funds are readily available to the non-defaulting party.

The SDMA supports the Proposed Rules use of approved models (as described in proposed rule 23.155(b)) to calculate initial margin. The SDMA agrees with the Consultative Paper's suggested use of either a quantitative portfolio margin model or a standardized margin schedule for the determination of initial margin, provided that market participants cannot switch between model-based and schedule-based margin calculations to obtain the most favorable initial margin terms. Market participants must be required to select one calculation method for each asset class.

The SDMA urges the Commission to adopt rules that support the full margining of uncleared swaps. Full

marginng of uncleared swaps is essential to reducing systemic risk and to promoting central clearing.

Sincerely,

/s/ James Cawley

James Cawley
Board Member
The Swaps & Derivatives Market Association

cc: The Hon. Gary Gensler, Commission Chairman
The Hon. Bart Chilton, Commissioner
The Hon. Scott D. O'Malia, Commissioner
The Hon. Jill E. Sommers, Commissioner
The Hon. Mark Wetjen, Commissioner