CFTC Roundtable to Discuss the "Futurization of Swaps"
FXall Prepared Remarks
January 31, 2013

I am Wayne Pestone, Chief Regulatory Officer of FXall, a Thomson Reuters company. I want to thank the Commission for inviting us to participate in this Roundtable. We intend to develop and register a SEF and have devoted many resources over the past 2 1/2 years towards that goal.

Thomson Reuters is concerned about the regulatory arbitrage emerging between the futures and swaps markets as a result of implementing the Dodd Frank rules. We note the disparate regulatory treatment between futures and swaps trading with regards to margin, block size, public trade reporting and volume thresholds that trigger Swap Dealer registration.

In each of these cases, we think the right outcome is equal treatment for economically-equivalent futures, swap futures, and swaps. Also, this equal treatment must be contemporaneous. In other words, if a precedent exists in the futures market, the analogous swaps rule should be consistent with this precedent, until and unless the CFTC moves to change that precedent in both markets.

Let's take, for example, two important issues:

Margin- We believe that margin for cleared swaps and futures should NOT be based on whether an instrument is called a future or a swap. We ask that the CFTC revisit the margin requirements and make changes so that it is based on an economic analysis of risk and liquidity such that economically equivalent swap and futures products have equal margin treatment.

Blocks- We believe that block size determinations should be equivalent for swaps and futures. Since the precedent is that DCMs can set their own block size, we think that SEFs as SROs should also be given equal authority. If after a year the CFTC analyzes the market data and believes the sizes should be changed, then it should make contemporaneous changes that apply to both markets.

Thomson Reuters views competition as a catalyst for bringing the best possible experience to our customers. We simply want the swaps markets be permitted to compete fairly with the futures markets on the appropriate playing fields. Regulatory arbitrage between markets, and especially arbitrage caused by the unintended consequences of regulators' efforts to improve one of those markets, does not create an appropriate playing field on which to compete.

Rather than asserting that swaps should simply be traded exclusively on DCMs, Congress created SEFs as part of Dodd Frank as an alternative to the existing DCM model. However, we are worried that significant portions of the swaps market won't be viable by the time SEFs are launched later this year. We are asking the CFTC to allow the SEF model to compete on economic and customer service grounds. Therefore, we request that the CFTC delay the effectiveness of any swap futures contracts on DCMs until the first SEFs in each asset class are allowed by the CFTC to operate and can compete fairly.

Let's talk about why the CFTC should care about crippling the swaps market and what benefits the swaps market brings to end users.

- In the swaps market, end users can create their own instruments to manage their risk (choosing their own tenor and notional size). In the futures market, where instruments are issued by the exchange rather than market participants, the end user can only choose amongst those listed instruments.
- In the swaps market, end users are able to perfectly match their risk exposure to a hedging instrument. The futures market offers liquidity in the most standardized contracts, but the swaps market needs to exist for bespoke trading. For instance, 85% of NDFs traded on FXall have non-standard / "odd" dates. Take for example, a corporate treasurer who has a payable invoice in 17 days requiring Korean won and he needs to

hedge his risk. If the corporate treasurer cannot find liquidity for these customizable swaps instruments because the swap market has dried up, he will likely have to use more "imperfect" standard date hedging strategies and carry more risk by using futures contracts.

- In the swaps market and on the SEFs, which is mostly disclosed trading, end users have direct access to the market and can trade directly with counterparties with whom they have relationships to hedge risk. In the futures market, those end users are forced to use a middleman, an FCM, in order to conduct this trading. For the end user, that middleman introduces additional cost, loss of control and the potential for market information leakage, to accomplish the same goal that the end user satisfies by himself today in the swaps market.

[Answers to Staff questions]

1. Should one rule establish the block trade sizes for both futures and swaps, or should they be established separately?

Thomson Reuters believes that block size determinations should be equivalent for swaps and futures. Either all regulated venues will have the ability to decide on the appropriate block sizes for their venues, as happens currently for DCMs, or there should be an imposed set of block sizes that apply across ALL venues including DCMs. The core principle has to be a level playing field rather than the currently proposed approach which disadvantages SEFs compared to DCMs. Since the precedent is that DCMs can set their own block size, we think that SEFs as SROs should also be given equal authority. If after a year the CFTC analyzes the market data and believes the sizes should be changed, then it should make changes that simultaneously apply to both markets.

2. Should block sizes be established by reference to notional value, number of contracts, or trading volume?

Thomson Reuters believes block sizes should be established based on the closest quantitative proxy for how the market defines "very large." Average notional value is the closest proxy. Number of contracts is not a good proxy. We of course note that average notional sizes are moving targets over time, and would suggest a yearly market-wide review of those thresholds.

3. Should block sizes be different for different asset classes?

Yes, they should be different for different asset classes. Block size thresholds should be firmly rooted in the context of the markets in which those asset classes trade. For example, a Japanese yen interest rate contract trades very differently than a Japanese yen FX forward contract. They are very different markets. Establishing a standard threshold across all asset classes, by using something such as % of notional value, ignores the differences in the FX and Interest Rate asset classes, despite them having the same underlying reference point. And even within an asset class different instruments have very different liquidity profiles, which means they are affected differently by the same size trade.

4. Should the block trade rule address any other issues to ensure that people cannot evade the trading and reporting requirements through the use of block trades (such as timing for compliance or the data that must be reported)?

Thomson Reuters is generally supportive of the different treatment of blocks with regards to execution requirements and real-time reporting. We believe that block trades must be reported, in support of the Dodd Frank goals of market transparency. Most importantly, however, is that this reporting requirement should be equally applied in the futures and swaps markets. We believe that the requirements for reporting the block trade of a swap future or swap to the DCM or SEF as well as the public (real-time) reporting should be harmonized for both markets.

Despite proposed language about how block trades should be executed on SEFs, there is still confusion in the industry about how this should work in practical terms. For example, if a block trade is executed bilaterally on the phone, is it required to immediately be reported to a SEF? The market is not clear on the answer to this question. This is relevant to today's panel because this confusion about blocks applies to SEFs, but not to DCMs. Market participants will move to the market where there is certainty on the market rules, so this uncertainty is currently a disadvantage to swaps and SEFs. Thomson Reuters strongly encourages the CFTC to clarify its intent on this point in the SEF rules.