DS10

COMMENT

SDMA SWAPS & DERIVATIVES MARKET ASSOCIATION

April 30, 2013

Melissa Jurgens
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street NW
Washington, DC 20581

Re: 17 CFR Part 37 SEF Rules

SEF Modes of Execution: In Support of SIFMA-AMG & ISDA Swaps Standardization of MAC & Limit Order Books

Dear Ms. Jurgens,

The Swaps and Derivatives Markets Association ("SDMA") submits this letter in support of recent ISDA and SIFMA interest rate swap standardization efforts with *Market Agreed Coupon* ("MAC") contracts. This industry effort is further recognition that certain interest rate swaps (MAC contracts) have now become fully generic and liquid enough for the Commission to require their mandatory trading in "all to all" limit order books under proposed *Swap Execution Facility* rules.

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 allow for greater competition, lower transaction costs, and increase 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.

On April 23 2013, SIFMA-AMG and ISDA announced the new *MAC* standard for interest rate swaps. Such MAC terms include a new market standard for standardized swap end dates and coupons. Under the standard, swaps shall now trade to the IMM dates; the third Wednesday in March, June, September and December on a rolling basis. Swap coupons shall also be standardized for MAC swaps. Such swaps shall no longer be set on a "par" basis but shall be set close to par, based on the *three month* or *six month* forward curve and rounded to the nearest 25 basis point increment.

The new MAC standard is broad-based and shall apply to all liquid curve points (1 year, 2 year, 3 year, 5 year, 7 year, 10 year, 15 year, 20 year & 30 year). It shall also apply to several currencies for swaps including; USD, EUR, GBP, JPY, CAD and AUD.

The value of such a new industry standard is clear.

Swap users no longer have to deal with "tail" risk that occurs when trading par swaps to different end dates. In addition, the consistency of the coupons means that swap users will be able to fully close out swaps by offsetting positions at clearinghouses, thereby greatly reducing margin and clearing maintenance costs.

SIFMA argues that the voluntary standard should promote liquidity, the SDMA agrees. Using the introduction of the 'SNAC' standard in credit derivatives as an example, liquidity should increase many times over because MAC contracts are fully generic in coupon, start date, end date, reset, day count convention, and currency.

In 2010, Congress passed the Dodd Frank Act mandating regulators to promote pre-trade price transparency in the trading of swaps. It is well established that pre-trade price transparency is a function of market participants having both equal *knowledge* and *access* to prices *before* they become trades.

The SDMA believes that the MAC standard is now the vehicle with which the Commission can mandate such pre-trade price transparency in the swaps market. Since MAC swaps are now fully generic, their liquidity will increase and will naturally coalesce around all *on-the-run* maturity dates.

These swaps lend themselves perfectly to the fully anonymous trading environment of the exchange-like central limit order book or "CLOB." CLOBs meet the dual pre-trade price transparency test of *knowledge* and *access* to prices for all market participants. As the most transparent mode of execution by most open markets globally, mandatory CLOB deployment in the swaps market will encourage liquidity and competition in a post Dodd Frank world.

Mandatory CLOB deployment for MAC swaps will meet Congress' goal to increase liquidity and competition in the swaps marketplace.

The Commission should recognize that while the internal debate concerning permissible modes of execution has centered on how many RFQ recipients should be mandated for SEF rules, the industry is moving on. With MAC swaps, the industry has offered the Commission an acceptable solution that meets Congress' goal of pre trade price transparency.

The SDMA recommends that the Commission recognize the benefits of the MAC standard for swaps and institute the mandatory trading of *non-block* MAC swaps in central limit order books on Swap Execution Facilities as part of the final SEF rule.

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