

November 27, 2013

Via Electronic Submission: <http://comments.cftc.gov>

Ms. Melissa Jurgens
Secretary
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st Street, N.W.
Washington, DC 20581

**Re: Javelin Made Available to Trade Submission for Certain Interest Rate Swaps
(Submission No. 13-06R)**

Dear Ms. Jurgens,

AQR Capital Management, LLC (“AQR”)¹ appreciates this opportunity to provide comments to the Commodity Futures Trading Commission (the “Commission”) on the certification of Javelin SEF, LLC (“Javelin”) to implement Made Available-to-Trade (“MAT”) determinations for certain Interest Rate Swaps (“IRS”).² We are active participants in global derivatives markets for swaps, options and futures with approximately \$95 billion under management for institutions and individuals around the world. We are wholly supportive of the Commission’s efforts to achieve the goals of market transparency and safety while improving the speed and efficiency of swap execution, including robust electronic trading capabilities, with the ultimate goal of making swap execution as efficient as futures trading. As such, we are strong proponents of the move to swap execution facilities (“SEFs”). However, in order to ensure an orderly transition to trading IRS on SEFs and designated contract markets (“DCMs”), we feel that the Commission should respond to the Javelin certification in a manner that does not broaden the scope of the made available to trade mandate beyond the readiness of the systems and market infrastructure employed by market participants, including SEFs, CCPs, FCMs, and customers. We recommend a phased approach that reflects these technological and operational realities. We believe that within months of the initial requirement to trade IRS on SEFs, the industry will be able to safely manage the transition to SEF trading for a very broad range of contracts, but it is essential that operational readiness precede any CFTC mandated trading obligation.

Our suggestions in this regard are as follows: (i) we urge the Commission to adopt a phased implementation approach to the MAT determinations similar to the approach taken in the transition to mandatory clearing but focused on product types instead of entity classifications; (ii)

¹ AQR is a global provider of investment management services for alternative investments as well as a broad spectrum of long-only funds. Founded in 1998, AQR manages a wide array of investments, spanning alternative investment strategies as well as benchmark-driven traditional equity funds for institutional investors, including pensions, insurance companies, endowments, foundations and sovereign wealth funds, as well as registered investment advisors.

² See <http://www.cftc.gov/stellent/groups/public/@otherif/documents/ifdocs/javelinsefsubmat1306r.pdf>.

we respectfully suggest that the MAT determination for IRS be limited to the benchmark tenors in the relevant classes of swaps during the initial transition to SEF trading (with more tenors and additional transaction types phased in over time); and (iii) we ask the Commission to confirm that SEFs and DCMs do not need to consider swaps executed as a package transaction, where swaps are executed simultaneously with a futures contract or cash bond, as subject to MAT determination even where the swap itself would be subject to a MAT determination if executed on an outright or stand-alone basis. While the industry is in the early stages of the development of protocols to enable the identification of package transactions, that work will not be complete by mid-February. Without this capability, customers will be forced to accept substantial “legging risk”³ and FCMs will have to extend much larger credit lines to facilitate these transactions, unnecessarily increasing systemic risk. We feel strongly that addressing these points will allow SEFs to initially accept a significant amount of swap business in the stand-alone swap markets, without requiring them to accept transactions which exceed their current technological and operational capabilities, such as package transactions.

In regards to the phasing of IRS products, we agree with other commenters that the benchmark tenors (i.e., the 2Y, 3Y, 5Y, 7Y, 10Y, 15Y, 20Y, and 30Y tenors) in the USD and EUR fixed-to-floating swap class are the natural starting point.⁴ IRS struck at these tenors are the most consistently traded instruments and represent the vast majority of IRS trading activity, the standard measures of market prices, and common risk transfer instruments within their respective markets.

There is presently significant uncertainty concerning how MAT determinations will impact the market in package transactions. Package transactions involving swaps that may become subject to the Javelin MAT determination play a vital and bona fide role in our financial markets. One common type of package transaction is an unwind (or offset) package. In an unwind package, one party replaces “aged” (formerly benchmark) tenor swaps with new swap instruments with an equivalent risk profile. Routine trading practices like the execution of periodic unwind packages benefit the markets by reducing systemic risk and help market participants directly by reducing firm-level operational risk. These packages may include dozens or even hundreds of line items and presently there is no mechanism for identifying these multiple line items as a single package transaction. Without a mechanism for identifying disparate parts of a package transaction, FCMs and CCPs will need to process one line at a time; this will make it difficult if not impossible to process the various components of the package within the mandated time frame required to clear transactions. We expect that the systems required to enable the proper identification of package transactions will be available sometime in 2014, but prior to that, package transactions should not be required to be transacted on a SEF.

Other types of package transactions such as swap spreads and invoice spreads serve to facilitate liquidity in an array of related products, including US Treasuries, Agency MBS, and Treasury and Eurodollar futures. Our concern is that requiring package transactions or their

³ “Legging risk” refers to the risk that the market moves between the time the first instrument is executed and the time any subsequent instruments comprising a package transaction are executed.

⁴ See MFA Comment Letter dated November 21, 2013 re: Industry Filings IF 13-004, 13-005, and 13-007.

component instruments to be traded on SEFs will separate these crucial elements of the fixed income markets. The costs of breaking up the packaged execution – including forcing market participants to cross multiple, wider bid-ask spreads and exposing market participants to legging risk – outweigh any benefits to customers from enhanced pre- or post-trade transparency or heightened competition in the SEF landscape. It is entirely possible that the increased costs and new legging risks will discourage investors from continuing to participate in these important markets.

To summarize, we believe that as part of any MAT determination the Commission should implement a schedule for market participants that requires market participants to commence trading of IRS beginning with outright trading of the benchmark tenors only, rather than simultaneously across all IRS transaction types. To enable market participants to prepare, it is crucial that the Commission should clarify its position on package transactions (where at least one leg of the package becomes MAT) as soon as feasible. We request that the Commission provide that these types of transactions are excluded from any MAT determination until such time as the Commission is satisfied that the relevant SEFs, CCPs and FCMs are technologically and operationally prepared to accept such transactions for trading.

* * * * *

We appreciate the opportunity to provide comments on the Javelin certification. Please feel free to contact Boris Liberman at 203-742-3892 with any questions regarding these comments.

Respectfully,

/s/ Brendan R. Kalb
General Counsel