ALPHADYNE
ASSET MANAGEMENT

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December 2, 2013

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

Re: Industry Filing IF 13-004 – Certification from Javelin SEF, LLC
Industry Filing IF 13-005 – Certification from trueEX, LLC
Industry Filing IF 13-007 – Certification from TW SEF LLC

Dear Ms. Jurgens:

Alphadyne Asset Management LLC ("Alphadyne") appreciates the opportunity to provide comments to the Commodity Futures Trading Commission (the "Commission") on the certifications of Javelin SEF, LLC, trueEX, LLC, and TW SEF LLC to implement "made available-to-trade" ("MAT") determinations for certain interest rate swaps.

Alphadyne is an alternative investment management firm founded in 2005, with offices in New York, Singapore and London. Our primary focus is directional and relative value investing in liquid interest rate and FX markets globally. The firm has approximately $2.6 billion of assets under management, and an investor base that includes a number of U.S. public and corporate (ERISA) pension funds. Our investment strategies involve the extensive use of interest rate swaps.

We fully support the regulations implementing Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), and Dodd-Frank's primary objectives of reducing systemic risk, increasing transparency and promoting market integrity within the financial system. We are concerned, however, that the MAT submissions by certain market participants will prematurely trigger the requirement (the "Trading Requirement") that certain swap transactions be executed on a swap execution facility ("SEF") or designated contract market ("DCM") before the market is prepared from a trading, operational and technological perspective, potentially leading to unintended consequences. Accordingly, we respectfully request that the Commission adopt a phased approach to implementation of the Trading Requirement for interest rate swaps, focusing initially on outright trades in the benchmark tenors, and in subsequent implementation phases, outright trades in the non-benchmark tenors, forward starting transactions, aged swaps transactions, and package transactions.

I. Process for MAT Determinations

A. Regulatory Requirements.

Commission regulations provide that in order to make a swap "available to trade," a SEF must (i) satisfy a listing requirement (the "Listing Requirement") and (ii) consider the following six factors (the "MAT Factors"):

- Whether there are ready and willing buyers and sellers;
- Frequency or size of transactions;
- Trading volume;
- Number and types of market participants;
- Bid/ask spread; and
- The usual number of resting firm or indicative bids and offers.

The Commission's regulations specify that not all the MAT Factors are required to be considered;[1] however, a SEF's analysis must be sufficient based on the facts and circumstances surrounding the submission.[2] The regulations also provide SEFs with flexibility by allowing MAT submissions to be made for a group, category, type or class of swap, provided that the SEF addresses in its submission that the determination factor or factors apply to all of the swaps within that group, category, type or class.[3] To satisfy the Listing Requirement, a SEF or DCM must certify that it is listing the swap for which it submits a MAT determination. While the Commission declined to adopt a minimum listing period, it did specify that an initial determination that a swap is available to trade should be made by a SEF or DCM that *offers* the swap for trading.[4]

B. Alphadyne's Viewpoint on the MAT Process.

We believe that a reasonable interpretation of the Listing Requirement is not mere certification via rulemaking, but instead the existence of a technological and operational support

[1] *See* Process for a Designated Contract Market or Swap Execution Facility To Make a Swap Available to Trade, Swap Transaction Compliance and Implementation Schedule, and Trade Execution Requirement Under the Commodity Exchange Act, 78 FR 33613 (June 4, 2013).
[2] *See id.* at 33610, 33613.
[3] *See id.* at 33611.
[4] *See id*. at 33610.

framework, from execution to clearing, that is capable of supporting requisite trade volumes implied by swap transaction data.[5] It is our view that for the Listing Requirement to be satisfied, not only must a SEF certify that it is capable of offering an efficient and scalable solution to handle uninterrupted executions on the front-end of a swaps transaction, but also that it has the required operational workflows and connectivity to support clearing of such swaps on the back-end. The failure to satisfy this component of the Listing Requirement may result in market participants ceasing to trade such instruments or packages of instruments, thereby reducing liquidity. This outcome runs counter to the objectives of Dodd-Frank by reducing pre- and post-trade transparency and, particularly in the case of unwind packages, potentially increasing systemic risk on a market-wide basis.[6]

As for the MAT Factors, while the other factors are no doubt relevant, it is our view that trade volumes and liquidity provide the most objective measures by which to evaluate the first set of MAT submissions under the new SEF regulatory regime, as swap transaction data is readily available and effectively enables efficient and focused decision-making. We further believe that, when analyzing and applying the MAT Factors, a SEF should do so with adequate precision and an appropriate level of granularity so as to ensure that its analysis applies to all swaps with the relevant group, category, type or class in its submission. An overly broad analysis and application of the MAT Factors is not only inconsistent with the intent of the Commission's regulations, but also could cause the Trading Requirement to become effective prematurely for certain instruments.

II. Request for Phased Approach

A. Phase 1 – Benchmark Tenors.

We believe that the first wave of interest rate swaps products that should be deemed MAT, and consequently subject to the Trading Requirement, are outright, spot-starting, swap transactions in the Benchmark Tenors (*i.e.*, the 1Y, 2Y, 3Y, 5Y, 7Y, 10Y, 15Y, 20Y, and 30Y tenors) in the USD and EUR fixed-to-floating swap class.[7] A review of available data shows that interest rate swaps in the Benchmark Tenors are the most liquid and consistently traded instruments, and represent a substantial majority of current market activity.[8] It is also our experience that these instruments are generally available for trading on SEFs, which we believe

[5] *See id*. at 33613 (stating that the adoption of the Listing Requirement renders the proposed MAT Factor that a SEF's or DCM's trading facility support trading in the swap redundant).

[6] As other commenters have pointed out, the Commission may wish to consider extraterritorial matters that could arise in connection with MAT determinations, as they may have the unintended consequence of causing "U.S. persons" outside the United States that are subject to the Trading Requirement to cease trading in such products during non-U.S. trading hours.

[7] We intend for these products to include both Par Coupon and Standard Coupon Standard Maturity swaps (*i.e.*, "MAC swaps").

[8] *See, e.g.*, Exhibit D of trueEX, LLC MAT submission, and related comment letters.

is indicative of a sufficiently robust technological and operational framework, and substantiates the presence of adequate liquidity. By focusing on the Benchmark Tenors in Phase 1, market-wide implementation should be relatively seamless and efficient, and pave the way in subsequent phases for trading of other interest rate swaps products in non-benchmark tenors and package transactions. It would also serve to materially accomplish the objectives of Dodd-Frank and the Commission's regulations by bringing greater pre- and post-trade transparency to those instruments that comprise the substantial majority of trading in interest rate swaps today.

B. Subsequent Phases.

(i) Outright Trades in the Non-Benchmark Tenors, Forward Starting and Aged Swaps

Consistent with our views expressed above, we believe that the subsequent waves of interest rate swaps products that should be deemed MAT and, consequently, subject to the Trading Requirement are outright transactions in the non-benchmark tenors, forward starting transactions, and aged swaps transactions which, based on an objective, data-driven analysis, sufficiently satisfy the requirements for a MAT submission. We do not, however, believe that a review of current SEF functionality and swap transaction data supports the conclusion that transactions in the non-benchmark tenors, forward starting swaps, or aged swaps sufficiently satisfy the Listing Requirement or MAT Factors outlined above. Again, it is our view that a reasonable interpretation of the Listing Requirement is the existence of a technological and operational support framework, from execution to clearing, that is capable of supporting requisite trade volumes implied by swap transaction data. To our knowledge, no SEF currently offers a comprehensive set of aged swaps for trading on their platforms. Similarly, while a limited set of forward starting swaps may be available, we are not aware of any SEF that has demonstrated the ability to trade custom-dated forward swaps. Further, as other commenters have pointed out, existing data also does not support the conclusion that trade volumes are substantial, or that liquidity is sufficient, with respect to such instruments. Drawing lessons from mandatory clearing, where a measured approach to implementation helped ensure a relatively seamless transition in the context of a profound market change, we believe that an initial focus on those products that already trade on SEFs would provide comparable benefits for a similarly transformative event.

(ii) Package Transactions

We strongly urge the Commission not to mandate that Package Transactions (*i.e.*, the simultaneous and contingent execution of two or more instruments) involving a MAT swap be broken up into separate executions of the individual components. While we appreciate the risks associated with a blanket exemption of Package Transactions from the Trading Requirement, it is important to note that there are legitimate market purposes justifying the use of these instruments; they are not simply used as a means to enable off-exchange execution of one or more legs of the transaction. Unwind packages, for example, provide an efficient and effective portfolio management tool to reduce the number of swap transactions on a market participant's books. Apart from allowing for effective risk management at a firm or entity level, unwind packages also decrease systemic risk market-wide and, therefore, arguably provide a public benefit. Additionally, as other commenters point out in greater detail, certain types of Package Transactions provide pricing benefits, reduce transaction costs and effectively mitigate against "legging risk."

It is our view that Package Transactions involving a MAT swap should not be subject to the Trading Requirement until (i) a sufficiently robust technological and operational support model exists, from trade execution through clearing, to allow for SEF trading of such instruments and (ii) the MAT Factors are satisfied based on an objective, data-driven analysis. While a limited subset of Package Transactions are currently offered for trading on SEFs, we are not aware of any SEF that offers a comprehensive set of Package Transactions, or that has implemented the required end-to-end workflows. Further, while certain Package Transactions are fairly liquid, we do not believe the data supports the conclusion that such instruments are sufficiently liquid and consistently traded to justify inclusion in the initial wave of products or transactions subject to the Trading Requirement.

We thank the Commission for the opportunity to provide the foregoing comments.

Sincerely,

/s/ William A. Hines
William A. Hines
General Counsel