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September 30, 2017

Christopher J. Kirkpatrick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: Request for Public Input on Simplifying Rules, Project KISS, in RIN 3038-AE55

Dear Mr. Kirkpatrick:

Thomson Reuters (SEF) LLC ("**TR SEF**" or "**we**") commends the Commodity Futures Trading Commission (the "**CFTC**" or "**Commission**") for its "Project KISS" initiative.[1] TR SEF supports the efforts of the CFTC and its Staff in examining how the agency's rules, regulations, and practices can be applied in a manner that will reduce unnecessary regulatory burdens and costs for derivatives market participants. In particular, TR SEF believes there are several such steps relating to swap execution facilities ("**SEFs**") that would benefit swap market participants. These steps would further the Commission's statutory mandate to promote the trading of swaps on transparent SEFs.[2] We also note that various changes and/or revisions to SEF related rules in line with Commissioner Giancarlo's White Paper are being contemplated and overlap with the KISS initiative.

TR SEF appreciates the opportunity to submit these comments in support of such steps as part of Project KISS. Our comments below relate to: (1) trade execution; and (2) reporting. Specifically, with respect to trade execution, we believe that:

- The interpretation in Footnote 88 should be retained and codified;
- Cross-border trading should be facilitated;
- MAT should be eliminated and CFTC should determine the effective date of a trading mandate;
- Requirements for SEF confirmations should be clarified;
- The requirement to provide an RFQ-to-All should be eliminated;
- The requirements for SEF CCO annual reports should be revised; and
- Permitted SEFs should be subject to a tailored regulatory regime.

With respect to reporting, we believe that:

- Block trades should be permitted on SEFs; and
- The "embargo rule" should be eliminated.

[1] *See* Project KISS Request for Information, 82 Fed. Reg. 21494 (May 9, 2017); and Correction, 82 Fed. Reg. 23765 (May 24, 2017).

[2] *See* Commodity Exchange Act ("**CEA**"), Section 5h(e), 7 U.S.C. 7b-3(e) ("The goal of this section is to promote the trading of swaps on swap execution facilities and to promote pre-trade price transparency in the swaps market.").

I. About Thomson Reuters and TR SEF

TR SEF, a subsidiary of Thomson Reuters Corporation, is registered with the CFTC as a SEF. Thomson Reuters Corporation is a world-leading source for intelligent information for businesses and professionals. With a global presence in more than 100 countries, Thomson Reuters Corporation combines industry expertise with innovative technology to deliver critical information to leading decision makers in the financial and risk, legal, tax and accounting, and media markets, powered by the world's most trusted news organization. Thomson Reuters Corporation shares are listed on the Toronto and New York Stock Exchanges.

More particularly, subsidiary companies of Thomson Reuters Corporation are leaders in various segments of the dynamic foreign exchange ("**FX**") market. Our FX Trading Solutions provide access to liquidity in OTC markets, trade execution capabilities and connections for market participants worldwide. They also offer post-trade services globally, enabling banks, brokers and electronic marketplaces to connect seamlessly with their counterparties. Together, they offer comprehensive solutions for trade discovery and analysis, execution and post-trade services in the FX market.

TR SEF facilitates trading in FX non-deliverable forwards ("**NDFs**") and FX options. TR SEF enables its participants to trade NDFs and FX options through its request-for-quote ("**RFQ**") and request-for-stream ("**RFS**") systems as well as an order book. Participants benefit from TR SEF's complete end-to-end workflow solution, including straight-through processing and settlement.[3]

As an FX-only SEF, TR SEF is a "**Permitted SEF**" in that it only facilitates the execution of "**Permitted Swaps**" that are not subject to a trade execution mandate. TR SEF does not facilitate the execution of any "**Required Swaps**" that are required to be cleared and traded on a SEF.

II. Trade Execution Comments

As Chairman J. Christopher Giancarlo wrote in his White Paper on SEFs, "effective regulation should always have as its goal the betterment of the activities being regulated."[4] We agree, and therefore believe the fundamental goal of the Commission's approach to SEFs should be to improve trade execution in furtherance of its statutory mandate to promote trading on these regulated markets.

The Commission's trade execution regulations have accomplished that goal in many respects, as evidenced by the fact that SEFs are now an established part of the swap market on

[3] Thomson Reuters' FX markets serve thousands of institutions globally, including industrial companies, asset managers, governments, international agencies and other financial institutions. Our platforms facilitate competitive pricing, internal trading controls, risk management and a granular audit trail. We have succeeded in improving efficiency and transparency and reducing risk for the FX market that is important to both the US and the world economy. Today, a large part of the FX market is traded on electronic systems such as TR SEF – including less liquid or infrequently traded instruments customized by end users to meet their specific commercial requirements.

[4] J. Christopher Giancarlo, Pro-Reform Reconsideration of the CFTC Swaps Trading Rules: Return to Dodd-Frank at 21 (Jan. 29, 2015), http://www.cftc.gov/idc/groups/public/@newsroom/documents/file/sefwhitepaper012915.pdf (hereinafter, the "**White Paper**").

which market participants have traded over $10 trillion in swaps nearly every month this year.[5] However, the Commission currently imposes several burdensome and ill-suited requirements on SEF trading. These burdens particularly impact trading in Permitted Swaps that are not subject to a trading mandate (like NDFs and FX options) because market participants can elect alternative means of executing such swaps (*e.g.*, on "single-dealer platforms," discussed further below, or in bilateral trading). As a result, the Commission's current SEF regime operates to dampen SEF trading in Permitted Swaps – in direct contravention of the CEA mandate that the CFTC promote SEF trading in order to achieve the public policy benefits of enhanced pre-trade transparency and competition.

We discuss several of these issues (and proposed solutions) below.

A. Footnote 88 Should be Retained and Codified

As an initial matter, though, removing "footnote 88," as some have advocated, is **not** an appropriate solution to the existing deficiencies in the CFTC's regulation of SEF trading. The Commission's interpretation in footnote 88 should be clearly codified in the SEF rules. Footnote 88 of the release in which the Commission adopted its SEF rules states that "a facility would be required to register as a SEF if it operates in a manner that meets the SEF definition even though it only executes or trades swaps that are not subject to the trade execution mandate."[6] In this footnote, the Commission articulated its reading of the CEA that a platform that meets the definition of a SEF (*i.e.*, a multi-to-multi platform that facilitates the execution of swaps) is not excused from registering as such merely because it does not facilitate the execution of Required Swaps that are subject to the trade execution mandate.

To depart from the principle of footnote 88 would not improve the CFTC's regulation of trade execution in Permitted Swaps, but rather would abandon it. Removing footnote 88 would enable the execution of Permitted Swaps on wholly unregulated multilateral platforms. Such an abdication of regulatory authority is not the appropriate way to address the flaws that exist in the CFTC's current SEF regulatory regime for the following reasons:

- **Registration of Permitted SEFs is Required by the CEA**: Section 5h(a)(1) of the CEA, which establishes the registration requirement for SEFs, simply and unequivocally states: "No person may operate a facility for the trading or processing of swaps unless the facility is registered as a swap execution facility. . . ."[7] The statutory registration requirement for SEFs, by its own terms, is not limited to platforms that facilitate the execution of Required

[5] *See* FIA SEF Tracker, Volume per month, *available at* https://fia.org/node/1834/.

[6] Core Principles and Other Requirements for Swap Execution Facilities; Final Rule, 78 Fed. Reg. 33476, 33481 (June 4, 2013) (hereinafter, the "**SEF Rule**").

[7] CEA Section 5h(a)(1), 7 U.S.C. § 7b-3(a)(1). Section 1a(50) of the CEA, in turn, defines a "swap execution facility" as "a trading system or platform in which *multiple participants* have the ability to execute or trade swaps by accepting bids and offers made by *multiple participants* in the facility or system, through any means of interstate commerce, including any trading facility, that – (A) facilitates the execution of swaps between persons; and (B) is not a designated contract market." (Emphasis added)

Swaps. It applies to platforms that facilitate the execution of *all* swaps, not merely Required Swaps.[8] Footnote 88 correctly construes the CEA's SEF registration requirement.

- **Permitted SEFs are working**: TR SEF has a diverse and large pool of participants that have voluntarily chosen to trade on a Permitted SEF in order to obtain the benefits of competition on a multilateral trading platform. It has had a notional trading volume of over $15 billion every month during the past year (hitting $20 billion in five of those months), with average daily volume generally in excess of $800 million during that same period.[9] However, it is unlikely that market participants would continue to voluntarily trade on Permitted SEFs to the same extent if they could access the same products and providers through another multilateral trading platform that is not registered as a SEF and thus does not carry with it the burdens and costs that accompany trading on a regulated platform.[10]

- **Removing footnote 88 would be contrary to the purposes stated in the CEA**: TR SEF, like other Permitted SEFs, is a robust, transparent marketplace. It is exactly the type of marketplace intended by the Dodd-Frank Act, and as noted above, the CEA mandates that trading on all SEFs, including Permitted SEFs, be encouraged. In addition, Permitted SEFs have followed the rules established by the CFTC, incurring significant costs in order to register as required by the CFTC to participate in these markets. For the CFTC to now remove footnote 88 and allow other platforms to offer multilateral trading as well, without having borne the regulatory compliance costs that TR SEF has incurred and cannot recover, would be in direct violation of the stated purpose of the CEA "to promote . . . *fair competition* among boards of trade, *other markets*, and market participants."[11]

Rather than remove the principle of footnote 88 and the regulation of multilateral platforms for the trading of Permitted Swaps, the Commission should focus instead, as Chairman Giancarlo has urged, on "the betterment of the activities being regulated" by making SEF trading more efficient and less costly. Below, we offer several proposals for doing so.

B. Cross-Border Trading Should be Facilitated

Many SEFs with affiliated platforms outside the US prohibit all US persons from trading on their non-US platforms in order to ensure that such platforms are not required to register as SEFs. On the other hand, because there is no formal recognition of SEFs by jurisdictions outside the US, in order to allow non-US persons to trade on SEFs and to operate SEFs in other

[8] To be sure, CEA Section 5h(d)(2) acknowledges that not all swaps must be traded on a SEF by stating: "For all swaps that are not required to be executed through a swap execution facility . . . such trades may be executed through any other available means of interstate commerce." CEA Section 5h(d)(2), 7 U.S.C. § 7b-3(a)(1). This provision simply acknowledges that Permitted Swaps may be executed off of SEFs entirely (*i.e.*, bilaterally or on single-dealer platforms), not that multilateral trading platforms meeting the definition of a SEF need not register as such.

[9] *See* FIA SEF Tracker, Volume by SEF, *available at* https://fia.org/node/1834/.

[10] We also note that, while some have claimed that footnote 88 prohibits (or at least inhibits) market participants from trading swap and non-swap products in a single portfolio, TR SEF participants are able to seamlessly trade swap and non-swap products together through one cohesive system. Specifically, once members of Thomson Reuters' non-SEF platform (FXall) provide appropriate documents to onboard onto the SEF, they can trade NDFs, FX options, FX forwards, FX swaps and FX spot transactions through the same electronic system and as part of a single portfolio.

[11] CEA Section 3(b), 7 U.S.C. § 5(b) (emphasis added).

jurisdictions, SEFs must undertake a long and costly process in each country to gain access. This has eliminated most cross-border swap trading activity on multilateral platforms. By contrast, single-dealer platforms allow US persons to trade swaps on their non-US systems without triggering any regulatory requirements.

CFTC Staff has issued two no-action letters in an effort to enable non-US platforms to facilitate cross-border swap trading.[12] However, we are not aware of any platforms relying on this relief because the no-action letters effectively require non-US platforms to comply with all of the same requirements applicable to registered SEFs. This has resulted in an international stalemate and the geographic fragmentation of the global swap market.

To ensure liquidity, expand SEF access and provide robust global markets, we urge the Commission to work with relevant non-US regulators to issue mutual recognition or substituted compliance determinations so that non-US platforms do not need to register as SEFs merely because they have some US-person participants, and so that SEFs can readily access the trading interest of participants outside the US. Indeed, with the impending implementation of MiFID II obligations in January 2018, TR SEF believes that the CFTC should prioritize such substituted compliance discussions in order to avoid greater fracturing of the market.

We also note that an earlier Staff letter may have laid a foundation for unlocking the current stalemate. On November 15, 2013, CFTC Staff wrote a letter to SEFs stating that, in determining whether a non-US platform would have to register as a SEF, the CFTC would consider whether a "significant portion of the market participants that a multilateral swaps trading platform permits to effect transactions are US persons or US-located persons."[13] Yet, neither Staff nor the Commission has ever provided any guidance on the meaning of the phrase "significant portion" in this context. In order to facilitate cross-border trading, we urge the Commission or its Staff to clarify that non-US platforms will not be required to register as SEFs unless a "significant portion" consisting of more than 25% (or other appropriate percentage, as determined by the Commission or its Staff) of their participants are US persons.

C. MAT Should be Eliminated and CFTC Should Determine the Effective Date of a Trading Mandate

Currently, once the CFTC determines that a swap is subject to mandatory clearing, any SEF that lists that swap can make a determination that it is "made available to trade" ("**MAT**"). At that point, all market participants must trade such a swap on a SEF using restrictive trade execution methods (*i.e.*, an order book or RFQ-to-3),[14] and must comply with various prescriptive requirements applicable to Required Swaps, such as the 15-second rule.

We believe this is an unworkable approach to implementing a trading mandate. SEFs have an inherent conflict of interest in issuing MAT determinations because it benefits SEFs if a greater range of swaps must be executed on-SEF (even if the liquidity characteristics of such swaps make

[12] *See* CFTC No-Action Letter No. 14-46 (April 9, 2014); CFTC No-Action Letter 14-16 (Feb. 12, 2014).

[13] *See* Division of Market Oversight Guidance on Application of Certain Commission Regulations to Swap Execution Facilities at 2, n.8 (Nov. 15, 2013).

[14] *See* 17 C.F.R. § 37.10.

it impractical to do so). Moreover, by subjecting Required Swaps to restrictive trade execution requirements, the Commission has created an "unnecessary tension between the clearing mandate and trading requirements"[15] because swaps that are sufficiently liquid to be cleared may have characteristics or market conventions that make it inappropriate to limit them to execution via an order book or RFQ-to-3. For these reasons, many market participants have indicated that, while they are comfortable with expanded clearing mandates, they cannot support such an expansion because of the MAT determinations that likely would follow.[16] Chairman Giancarlo echoed these sentiments in his White Paper, where he referenced the debate over an NDF clearing mandate and indicated that the "ill-conceived SEF execution and MAT regime has complicated the ability to make additional clearing mandates."[17]

We therefore support eliminating the existing MAT process.[18] Additionally, we agree with Chairman Giancarlo that the MAT process would be largely unnecessary if SEFs were able to offer flexible methods of execution, and were not subject to unnecessary prescriptive requirements such as the RFQ-to-3.[19] These restrictive trade execution limitations and overly prescriptive requirements applicable to Required Swaps should be removed, so that all swaps can be executed on SEFs in the same manner that Permitted Swaps can be executed today.

However, while we support doing away with the existing MAT process, we believe there should be an objective process in place for the CFTC to determine when a trade execution mandate takes effect. If the MAT process is eliminated but there is no CFTC process to determine the effective date of a trade execution mandate, any swap subject to mandatory clearing that is also listed by a SEF would immediately be subject to mandatory trading, recreating some of the current tension. The fact that a swap meets the statutory requirements for a clearing mandate does not necessarily mean it is automatically suitable for mandatory trade execution. Nevertheless, we believe that allowing for more flexible methods of execution and removing prescriptive requirements as discussed above will allay the concerns of market participants and the CFTC as to whether the market can support mandatory SEF trading and allow the expansion of products that should be mandatory traded on SEFs. The CFTC should therefore establish an objective process that determines when a trading mandate can appropriately take effect.

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[15] White Paper at 30.

[16] *See, e.g.*, comments of Stephen Berger, Citadel LLC, PUBLIC ROUNDTABLE: THE MADE AVAILABLE TO TRADE PROCESS (July 15, 2015) ("an adverse consequence of the current process is that the inability to control the MAT process creates this link between the clearing obligation, the trading obligation that some people are quite frightened of. And so that creates I think a negative force on the further expansion of central clearing which I think is something everyone around this table agrees has gone well and may even warrant further expansion.").

[17] *See* White Paper at 31. As Chairman Giancarlo has explained, "The current non-deliverable forward (NDF) clearing mandate debate highlights the tension between clearing and trading and the flawed swaps trading regime. At the October 9, 2014 CFTC Global Markets Advisory Committee meeting, participants noted that once NDFs are subject to the clearing mandate, the trade execution requirement is a practical certainty due to the SEF-controlled MAT process." *Id.*

[18] *See id.* at 29-32.

[19] *See id.* at 31.

D. Requirements for SEF Confirmations Should be Clarified

Chairman Giancarlo wrote in his White Paper that:

> This proposal would also narrow the scope of confirmations for uncleared swaps to include only their primary and other material economic terms. There would be no need for confirmations to either supersede or reference master agreements or require SEFs to possess such agreements. It is practically impossible for a SEF to collect and track changes to every agreement between participants, and to have to "glean" any information from these agreements for confirmation and reporting purposes. If there is a concern that master or other agreements may be used to change the economic terms of a transaction entered into on a SEF, then SEF-issued confirmations could be structured to supersede the terms of any agreement between the counterparties that contradict transaction-specific economic terms in the confirmation.[20]

We agree. In particular, we agree that SEF confirmations should: (1) only be required to contain the primary economic terms of a swap and (2) supersede any conflicting terms in the relevant master agreement.

E. The Requirement to Provide an RFQ-to-All Should be Eliminated

The adopting release of the SEF Rule states that "acceptable RFQ Systems must permit RFQ requesters the option to make an RFQ visible to the entire market."[21] This "RFQ-to-all" requirement is an artificial construction that is not required by the CEA.

We agree, therefore, with Chairman Giancarlo's position in his White Paper, where he wrote:

> This White Paper asserts that there is no "all-to-all" trading mandate set forth in Title VII of the Dodd-Frank Act and the Commission does not have the authority to impose one. Accordingly, this White Paper does not advocate for any particular market structure, such as existing separate D2D and D2C markets or combined all-to-all markets, but simply calls for letting participants in the marketplace determine the optimal market structure based on their swaps trading needs and objectives.[22]

F. The Requirements for SEF CCO Annual Reports Should be Revised

The Chief Compliance Officer ("**CCO**") for each SEF is required to prepare, every year, a lengthy report with detailed information regarding (among other things) the SEF's written policies and procedures and compliance program.[23] These reports are unduly burdensome to prepare in

[20] White Paper at 68.

[21] SEF Rule, 78 Fed. Reg. at 33499.

[22] White Paper at 67.

[23] *See* 17 C.F.R. § 37.1501(e).

comparison to the regulatory benefit of much of the information required to be provided, and we therefore believe the requirements for such reports should be revisited.

We note that registered swap dealers, major swap participants and futures commission merchants are subject to a similar requirement to produce an annual CCO report, and the Commission recently proposed to amend those requirements in order to make them less onerous.[24] The Commission noted that CCOs of such entities are currently required to provide a significant amount of information with regard to "*each applicable CFTC regulatory requirement* to which the Registrant is subject. In other words, *for each applicable CFTC requirement* the CCO Annual Report must identify a WPP [*i.e.*, a written policy and procedure], assess the WPP, and discuss related areas of improvement."[25] In response to comments that such requirements are "burdensome when compared to the intrinsic value of this portion of the report, particularly given that many of the WPPs do not change from year to year," and recognizing that the current requirements may not be "promoting an active, on-going self-evaluation," the Commission proposed a number of changes to the CCO report requirements for swap dealers, major swap participants and futures commission merchants.

The comments that led the Commission to propose amendments to the CCO report requirements for swap dealers, major swap participants, and futures commission merchants are equally applicable to the CCO reports required of SEFs. We believe, therefore, that the Commission should adjust the requirements for a SEF's CCO report in the same ways. Specifically, the Commission should no longer require that a CCO report analyze its WPPs with regard to each applicable CFTC requirement. Rather, the CCO report should only be required to describe: (1) the SEF's WPPs (including any material changes thereto), (2) the CCO's assessment of the effectiveness of the SEF's WPPs, (3) recommended areas for improvement in the coming year, (4) the resources set aside for compliance with laws and regulations applicable to its business as a SEF, and (5) any material instances of non-compliance.

Additionally, we note that SEFs bear less risk than that borne by other types of registrants (because SEFs are not counterparties to any trades, and do not hold customer money) and that SEF compliance programs are very consistent once established. As a result, material changes to a SEF's compliance program are likely to be less frequent. Therefore, we believe CCO reports for SEFs should only be required to contain all of the information listed above every other year. In the intervening year, we believe SEF CCO reports should only be required to describe material changes to the SEF's WPPs and any material issues of non-compliance. We believe this would properly align the burdens of preparing such reports with the regulatory benefits associated with them.

Separately, SEF CCOs are currently required to file their annual reports to the Commission within 60 days after the SEF's fiscal year-end. We also request that the deadline for filing SEF

[24] *See* Chief Compliance Officer Duties and Annual Report Requirements for Futures Commission Merchants, Swap Dealers, and Major Swap Participants; Amendments; Proposed Rule, 82 Fed. Reg. 21330 (May 8, 2017).

[25] *Id.* at 21333 (emphasis in original).

CCO reports be extended to 90 days after the SEF's fiscal year-end, which would be in line with the Commission's proposal for the CCO reports of other regulated entities.[26]

G. Permitted SEFs Should be Subject to a Tailored Regulatory Regime

The SEF Rule applies in equal measure to both: (1) Permitted SEFs; and (2) SEFs that facilitate the execution of Required Swaps. Yet, this approach ignores a critical distinction between these two types of SEFs: Market participants trading Permitted Swaps can trade elsewhere if they like. Specifically, Permitted SEFs compete with unregulated single-dealer platforms, *i.e.*, electronic venues for trading swaps with a single liquidity provider (typically a bank that runs the single-dealer platform). Single-dealer platforms are not required to register as SEFs because they do not satisfy the "multi-to-multi" prong of the SEF definition and registration requirement.[27]

TR SEF does not suggest that the Commission should require the registration of these single-dealer platforms. As discussed above, Permitted SEFs such as TR SEF compete with these platforms on the basis of advantages that accrue to market participants from trading on a multilateral platform.[28] TR SEF does suggest, however, that in light of the Commission's dual statutory mandates to promote swap trading on SEFs and fair competition among markets, the Commission should consider whether all the requirements that it imposes on SEFs that facilitate the execution of Required Swaps are appropriate for Permitted SEFs, too.

TR SEF respectfully suggests that certain requirements imposed by the SEF Rule make sense when applied to SEFs that facilitate the execution of Required Swaps, but when they are applied to Permitted SEFs, these requirements have the effect of driving market participants away from regulated Permitted SEFs and onto unregulated single-dealer platforms. In order to fulfill its mandates under the CEA to promote swap trading on SEFs and fair competition among markets, the Commission should move away from the one-size-fits-all approach of the SEF Rule and develop a regulatory regime that is specifically tailored to the unique circumstances applicable to Permitted SEFs.

For example, all SEFs, including Permitted SEFs, must require potential participants to review a significant amount of paperwork, including a user agreement, onboarding documentation and complex rulebooks, and legally agree to abide by it all before accessing the platform. This documentation and the content SEFs are required to include in their rulebooks as part of the registration process appear to have been modeled on the requirements applicable to designated contract markets ("**DCMs**") – the most heavily regulated category of trading platform under the CEA. And importantly, they significantly dis-incentivize trading Permitted Swaps on SEFs

[26] *See* Chief Compliance Officer Annual Report Requirements for Futures Commission Merchants, Swap Dealers, and Major Swap Participants; Amendments to Filing Dates, 81 Fed. Reg. 53343, 53345 (Aug. 12, 2016).

[27] *See* note 7, *supra*; *see also* SEF Rule, 78 Fed. Reg. at 33482 ("The Commission continues to believe that a one-to-many system or platform . . . would not meet the SEF definition in section 1a(50) of the [CEA] and, therefore, would not be required to register as a SEF . . . because it limits the provision of liquidity to a single liquidity provider.").

[28] As discussed above, though, TR SEF does not believe it would be appropriate to exacerbate the existing regulatory disparity between Permitted SEFs and unregulated single-dealer platforms by removing footnote 88 to create a further regulatory disparity between Permitted SEFs and unregulated multilateral platforms. Such a step cannot be reconciled with the stated purposes of the CEA to promote swap trading on SEFs and fair competition among markets.

because market participants can trade the same products on single-dealer platforms without any similar requirements.

A tailored regulatory regime to promote SEF trading for Permitted Swaps could allow Permitted SEFs to have streamlined rulebooks setting forth principles-based rules, rather than the prescriptive requirements regarding execution methods or becoming a SEF participant that apply to SEFs facilitating the execution of Required Swaps. Such a tailored regulatory regime similarly could allow Permitted SEFs to employ a simplified onboarding process by eliminating the need for participants to sign a formal user agreement and instead adopt rules stating that, by initiating or executing a transaction on the SEF's platform, the participant agrees to comply with all of the SEF's rules.

TR SEF urges the Commission to develop an appropriate regulatory regime that is tailored to Permitted SEFs and that, in Chairman Giancarlo's words, serves "the betterment of the activities being regulated." We would welcome the opportunity to work with the Commission and its Staff on these suggestions for what such a tailored regulatory regime would look like – as well as others that may be received from market participants and other Permitted SEFs.

III. Reporting Comments

SEFs are required to report transaction data for all swaps executed on their platforms. Below, we provide comments on ways to improve efficiency and reduce unnecessary regulatory costs associated with SEF reporting requirements.

A. Block Trades Should be Permitted on SEFs

If a swap qualifies as a "block trade," the swap data repository ("**SDR**") to which it is reported must delay publicly reporting the transaction in order to prevent front-running and other types of problematic trading behavior. A block trade is defined as "a publicly reportable swap transaction that: (1) Involves a swap that is listed on a registered [SEF] or [DCM]; (2) Occurs away from the registered [SEF's] or [DCM's] trading system or platform and is executed pursuant to the registered [SEF's] or [DCM's] rules and procedures; (3) Has a notional or principal amount at or above the appropriate minimum block size applicable to such swap; and (4) Is reported subject to the rules and procedures of the registered [SEF] or [DCM] …."[29] Therefore, a swap must "occur away" from a SEF in order to qualify as a block trade.

We agree with Chairman Giancarlo's view that the "occurs away" requirement creates an "arbitrary and confusing segmentation between non-block trades 'on-SEF' and block trades 'off-SEF.'"[30] We believe, therefore, that block trades should be allowed to trade on SEF platforms while also receiving the public reporting delay. Market participants want streamlined execution for their transactions (including block trades), but may not wish to forfeit the public reporting delay

[29] 17 C.F.R. § 43.2.

[30] *See* White Paper at 27-28.

given to block trades in order to trade a large notional swap on a SEF. We therefore believe the "occurs away" requirement in the block trade definition should be removed.[31]

B. The "Embargo Rule" Should be Eliminated

The so-called "embargo rule" prohibits SEFs from disclosing or posting swap transaction and pricing data to their participants until the transaction data is transmitted to an SDR.[32] The CFTC has interpreted this to mean that SEFs cannot "flash" data to their participants until the trade data has been enriched as required by the SDR and sent to the SDR.

This rule complicates beneficial trade execution methods such as "call-outs" and "work-ups." Generally speaking, a call-out is an auction to which a select number of participants are invited, and a work-up is a process whereby counterparties buy or sell additional quantities of a swap immediately after its execution at a price matching that of the original trade. These execution methods facilitate liquidity and price transparency, but the embargo rule hinders their usage because both methods inherently involve some participants knowing the price of a swap before such data is enriched and transmitted to an SDR. We agree with Chairman Giancarlo's view[33] that the embargo rule should be eliminated.

IV. Conclusion

TR SEF appreciates the opportunity to provide the Commission and Staff with its perspective on the foregoing matters. If you have any questions regarding our comments, please contact the undersigned at (202) 572-0198.

Respectfully submitted,

Wayne Pestone
Chief Compliance Officer
Thomson Reuters (SEF) LLC

[31] We note that in certain no-action letters permitting cleared swaps to be executed as block trades on a SEF, Commission staff prohibited such swaps from being executed through an order book, *see, e.g.*, CFTC No-Action Letter 14-118 (Sept. 19, 2014). This stance may have been motivated by a belief that swaps executed on an order book are subject to pre-trade transparency, so there is no need to allow them to be executed as block trades in order to receive a delay from real-time reporting. If this remains a concern, the Commission could prohibit on-SEF block trades from being executed through an order book, as staff did in earlier no-action letters.

[32] *See* 17 C.F.R. § 43.3(b)(3).

[33] *See* White Paper at 36-37.