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VIA CFTC COMMENTS PORTAL
(https://comments.cftc.gov)

Christopher Kirkpatrick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st St., N.W.
Washington, D.C. 20581

RIN 3038-AE25—Swap Execution Facilities and Trade Execution Requirements, 83 *Federal Register* 61946 (November 30, 2018).

Dear Mr. Kirkpatrick:

Capitalab, a division of BGC Brokers L.P., ("Capitalab") writes to comment on the Commodity Futures Trading Commission's ("Commission") notice of proposed rulemaking entitled, "Swap Execution Facilities and Trade Execution Requirements," 83 *Federal Register* 61946 (November 30, 2018)(the "Proposal").

I. Introduction

Capitalab appreciates the effort and thought behind the Proposal. However, absent a number of clarifications, the Proposal might have the very serious unintended consequence of making multilateral compression and similarly useful risk reducing optimization services less available to U.S. persons and less efficient for non-U.S. participants as a result.

The Commission defines "multilateral compression exercise" as "an exercise in which multiple swap counterparties wholly terminate or change the notional value of some or all of the swaps submitted by the counterparties for inclusion in the portfolio compression exercise . . . ." As discussed below, multilateral compression service providers ("Compression Providers")[1] offer a service that enables participants, typically Swap Dealers, to reduce the number of swaps in, or the notional amount or relative risk of, their swap portfolios by using algorithms to determine the optimal multilateral matching among participants. Compression exercises reduce systemic risk and are encouraged by Commission rules.

Because compression exercises and the similar processes of margin optimization require all participants to agree to the proposed package of transactions, in accordance with the current regulatory framework, the Compression Provider provides the list of proposed trades to an Introducing Broker ("IB") who submits the matched transactions to a SEF for execution. As discussed below, absent several recommended clarifications, the Proposal, by altering the

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[1] As discussed in **Section III C**, Compression Providers have expanded their service offering to similar types of contingent packages of transactions that are focused on outcomes that may include goals other than reduction of outstanding notional amounts in a portfolio. The term "Compression Providers" as used herein is intended to address all of the related services that may be offered by firms that operate multilateral exercises that compress portfolios or that result in other forms of portfolio optimization.

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relationship of IBs and SEFs and prohibiting pre-execution discussions of trades, may make the multilateral compression and optimization processes unavailable to U.S. persons.

This comment letter describes multilateral compression and similar optimization services and their benefits; the Commission's past efforts to address how multilateral compression exercises and their providers fit within the regulatory framework; the challenge to the conduct of such processes under the proposed rules; and offers several recommended clarifications to the proposed rules.

II. Capitalab

Capitalab is a ring-fenced division of BGC Brokers L.P. ("BGC"). BGC provides inter-dealer brokerage services in foreign exchange, foreign exchange options, interest rates, interest rate options, and credit and equity derivatives. BGC was incorporated in 2006 and is authorized and regulated by the UK Financial Conduct Authority as an Investment Firm and is registered with the Commission as a non-U.S. IB. BGC is a subsidiary of BGC Partners, Inc.

Capitalab was founded by former interest rate option traders and quants to offer various forms of compression services to swap dealers. Capitalab provides compression services that are designed to bring greater capital and operational efficiency to the global derivatives market by simplifying the complexities of managing large quantities of derivatives, thereby lowering systemic risk, and improving resiliency of the financial system. Capitalab offers its compression services pursuant to a set of protocols to which participants must adhere.

Over 35 major market participants participate in Capitalab's services, with more being admitted to participate in Capitalab's recently introduced CCP optimization service as a consequence of uncertainty over Brexit. Capitalab's Swaptions and Options compression exercises have reached a regular compression efficiency of between 25% to 40% with some individual clients seeing more than 60% efficiency for larger portfolios. More than €8 trillion notional has so far been unwound in compression exercises operated by Capitalab, in particular across hard to value options portfolios.

Capitalab' s interest in the proposed rulemaking is that it currently includes among the participants in its compression services U.S. Swap Dealers, whose transactions are subject to Commission regulation. Therefore, compressed transactions involving these participants are subject to the Commission's rules.

III. Capitalab's services

A. History

Capitalab's initial offering was launched in September 2015 and was a compression service for interest rate options in EUR, USD, GBP, and JPY. Since then, Capitalab has continued to expand the scope of its compression and related optimization services. In January 2018, Capitalab completed a joint multilateral compression and bilateral margin optimization service for more than 15 counterparties using Capitalab's Initial Margin Optimisation ("IMO") algorithm. Capitalab's offering is especially useful in compressing uncleared options and swaptions which present more complexity due to their non-linearity. In addition, the optimization component of the joint exercise reduced initial margin for the participating

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counterparties and the operational complications of expiry management of options required for the IMO.

Most recently, Capitalab introduced the innovation of combining bilateral uncleared and cleared swaps within the same compression exercise involving non-linear options with linear swaps for individual client compression ratios of up to 80% of larger extended portfolios provided. On December 20, 2017, Capitalab was appointed by LCH as an Approved Compression Services Provider for all SwapClear Ltd, members. As such, Capitalab is now able to operate a compression service for interest rate instruments across an entire portfolio of cleared and uncleared products. In February 2018, Capitalab used its Swaptioniser® portfolio compression service to successfully combine in a single compression cycle Swaptions, Caps, Floors and LCH-cleared interest rate Swaps and Forward Rate Agreements (FRAs), enabling the compression of both cleared and uncleared products and enabling participants to avoid a build-up of notional exposures in both cleared and uncleared swaps. Cameron Goh, Global Head of Product, Rates, and FX, LCH, said of this first ever compression service, "The ability for customers to compress cleared and non-cleared positions increases opportunities to drive down notional outstanding and increase capital and operational efficiencies for the market."

In November 2018, Capitalab completed a compression cycle involving CME cleared swaps and in December 2018, Capitalab began to offer CCP margin optimization services which can be used to reduce systemic risk caused by Brexit.

B. Regulation

Portfolio compression is addressed under European Union statutes and regulation to which Capitalab is subject. Multilateral compression exercises are not subject to a trade execution requirement under EMIR; accordingly, multilateral Compression Providers currently would not be considered to be a Multilateral Transaction Facility ("MTF") or an Organized Trading Facility ("OTF") platform. As explained in Title V, Derivatives, Article 31 of MiFIR,

> when providing portfolio compression, investment firms and market operators shall not be subject to the best execution obligation in Article 27 of Directive 2014/65/EU, the transparency obligations in Articles 8, 10, 18 and 21 of this Regulation and the obligation in Article 1(6) of Directive 2014/65/EU. The termination or replacement of the component derivatives in the portfolio compression shall not be subject to Article 28 of this Regulation.

Accordingly, Capitalab operates off-venue under MiFIR and MiFID II as both a Compression Provider under MiFIR and as described in MiFIR recital 27, for non-price forming post-trade risk reduction services that reduce non-market risks in derivatives portfolios.

The Commission does not regulate Compression Providers.[2]

[2] See **Section IV B** for a discussion of the Commission's regulatory framework for compression services and Compression Providers.

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C. Overview of services

The same processing technique that is used to compress the notional amount of portfolios has been used to reduce other types of risks, as well. When applied to risks other than notional amount, this process is known as "portfolio optimization." Capitalab offers compression and a number of related portfolio optimization services.

All of these compression or optimization services share a number of features. First, where new trades are required for compression or optimization of a portfolio (rather than simply tear-ups or amendment of existing trades), they are always executed as a multilateral contingent package of trades. That is, all compression or optimization participants must agree to the trades identified by the algorithm as providing the optimum result. If any participant declines to participate, the solution no longer is valid, resulting in the whole process (which is run over a series of days culminating in the final optimization algorithm results being published) needing to be re-run with or without participation by the declining participant, on subsequent days which then can mean other participants cannot be part of the optimization.

Secondly, the solution is determined by running an algorithm that is applied to all submitted trades, within constraints provided by participants. Accordingly, each trade submitted by a participant will be considered by the algorithm, along with the participant's selected constraints. These ensure that the proposed solution will limit the variance of risk measures between the original and the compressed or optimized portfolio in accordance with the participant's risk tolerance.

Thirdly, all transactions for a participant must be market-risk constrained toward neutral. That is, following compression or optimization, each participant's compressed portfolio should have the same, or nearly the same, market risk as the original portfolio.

Finally, the resulting trades are non-price forming. That is, none of these trades contributes to price discovery in the current market. The prices of any trades resulting from the compression or optimization solution are not an expression of current market sentiment, they are merely the mathematical component needed to obtain a market neutral solution.

1. Processes that rely upon "multilateral contingent package of trades"

Portfolio optimization, like compression, is the result of execution of a multilateral contingent package of trades. The concept of a "multilateral contingent package of trades" in portfolio compression or optimization means that every participant must agree to all of the trades proposed in the multilateral solution in order for any to be executed. That is, each proposed transaction is contingent upon the entirety of the transactions being executed as a package. Operation through a multilateral contingent package of trades results in a more effective compression or optimization of portfolios than otherwise could be achieved.

Compression and portfolio optimization are readily distinguishable from, and their benefits are not available by, traditional trading on the market. The portfolio compression and optimization process results in no new price-forming trades. It follows that the multilateral contingent package of trades that results from portfolio compression or optimization exercises is readily distinguishable from trading either bilaterally or on a centralized market such as a SEF, because this package of trades does not result in a change to the participant's market risk exposure.

Although the types of risks reduced as a result of portfolio optimization may not fall within a strict definition of "compression exercise" each of the risks that can be reduced through portfolio optimization is significant, and like compression, lowers systemic risk in ways that otherwise would be unaddressed, or addressed far less efficiently. For example, portfolio optimization exercises currently are being used to reduce LIBOR or NDF fixings risk of a portfolio, (Reset Risk Management), to reduce bilateral counterparty risk on which initial margin is based (Initial Margin Optimization) or to encourage substitution of one rate for another, such as substituting SOFR for LIBOR (Rate Replacement). A further use of Initial Margin Optimization recently introduced is CCP margin optimization whereby dealers can in an overall risk neutral fashion adjust risk between CCPs in a multilateral Initial Margin Optimization. In Europe, this is being used to minimize systemic risk from a hard Brexit situation.

Each of these uses of the multilateral contingent package of trades technique is discussed in turn.

a) Multilateral compression

Commission Rule 23.500(h) defines "multilateral portfolio compression exercise" as

> An exercise in which multiple swap counterparties wholly terminate or change the notional value of some or all of the swaps submitted by the counterparties for inclusion in the portfolio compression exercise and, depending on the methodology employed, replace the terminated swaps with other swaps whose combined notional value (or some other measure of risk) is less than the combined notional value (or some other measure of risk) of the terminated swaps in the compression exercise.

The Commission explained that portfolio compression services,

> provide a netting mechanism that reduces the outstanding trade count and outstanding gross notional value of swaps in two or more swap counterparties' portfolios. To achieve this result, a portfolio compression service, for example, may wholly terminate or change the notional value of some or all of the swaps submitted by the counterparties for inclusion in the portfolio compression exercise and, depending on the methodology employed, replace the terminated swaps with other swaps whose combined notional value (or some other measure of risk) is less than the combined notional value (or some other measure of risk) of the terminated swaps in the compression exercise. The swap counterparties' risk profiles are not materially changed as a result of the portfolio compression.

The usefulness of multilateral compression has been acknowledged widely by financial regulators. The President's Working Group stated that frequent compression is a key policy objective for the swaps markets,[3] as did the Financial Stability Board[4] and the Federal Reserve Bank of New York.[5] The policy of encouraging portfolio compression is reflected in

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[3] President's Working Group on Financial Markets Policy Objectives for the OTC Derivatives Markets, found at https://www.treasury.gov/resource-center/fin-mkts/Documents/policyobjectives.pdf ("Prudential supervisors should continue their cooperative efforts to improve the operational infrastructure for all OTC derivatives, including encouraging further improvements to post-trade automation, frequent portfolio compression for outstanding trades and enhancing standardized documentation.")

[4] Financial Stability Board report entitled, "Implementing OTC Derivatives Market Reforms (October 25, 2010) at 37.

[5] Federal Reserve Bank of New York Staff Report no. 424, entitled "Policy Perspectives on OTC Derivatives Market Infrastructure" (March 2010) at 19-20.

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Commission rule 23.503, which requires Swap Dealers to enter into periodic bilateral and multilateral compression exercises and, with respect to Derivatives Clearing Organizations ("DCO"), in Commission rules 39.12(b)(iv) and 39.13(h)(4). Commission rule 39.13(h)(4), which recognizes portfolio compression as a risk management tool of a DCO, requires DCOs to make portfolio compression exercises available to clearing members if such services have been developed by a third-party provider, such as Capitalab.

Multilateral compression offers benefits both by mitigating systemic risk as well as offering economic benefits to individual participants. Multilateral compression reduces systemic risk by reducing the amount of outstanding counterparty notional amounts, thus reducing operational and settlement risk associated with larger portfolio size and associated larger cash flows, reducing the variability and size of daily variation margin cash flows.

At the micro level, multilateral portfolio compression simplifies a participant's trading book, decreasing the complexity of maintaining the trading book over time. In addition, portfolio compression provides individual participants with significant cost and capital benefits, lowering participants' funding cost of initial margin.

Portfolio compression can be effective for both proprietary and client accounts. Moreover, it can benefit both cleared and uncleared transactions. Swaptions, in particular, have proven to be, and remain, difficult to clear. Estimates are that $39 trillion in notional amount of uncleared swaptions is outstanding. In the absence of the availability of clearing, multilateral compression offers the primary means of ameliorating the systemic risk presented by large portfolios that include such transactions.

b) Reset Risk Management

Reset risk management refers to the risk arising from mismatches in the tenors between one swap and a second swap intended to hedge the first. It is not uncommon that swaps intended to hedge one another will have slightly different reset or termination dates. This is in contrast to futures contracts, which have standardized tenors. Swaps that have a periodic reset term but different fixing dates for either floating rate index (Interest Rate Swaps) or FX fixing (NDFs) have the risk that at reset (or at termination), which may occur at different times, the two swaps in a portfolio meant to hedge one another will instead diverge, exposing the owner to sudden swings in the index rate or FX fixing rate. In interest rate swaps, an example of this risk is often termed "the Swiss National Bank Problem."[6]

The risk caused by the mismatch of reset days of swaps held in participant's portfolio can be reduced through an optimization exercise applying multilateral contingent trade package solutions for the purpose of reducing "fixings risk." The processing is the same as used in compression exercises to reduce the overall notional size of participants' portfolios, but instead the algorithm is focused on reducing the number of outstanding swaps with mismatched tenors in

[6] On January 15th 2015, when the Swiss National Bank (SNB) suddenly announced that it would no longer hold the Swiss franc at a fixed exchange rate with the euro, the SNB also announced it would move its target for 3-month Libor to the range between -1.25 percent and -0.25 percent, from the then current range between -0.75 percent and 0.25 percent and previously dormant floating rate CHF libor one-day exposures suddenly came to life with shock consequences to market operators who thought that they were flat.

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participants' portfolios. After a Reset Risk Management exercise, the number of swaps with mismatched reset dates in a participant's portfolio will significantly decline.

Reset Risk Management—or the application of the multilateral contingent package of trades process to reduce mismatch in tenors of swaps in a portfolio—has both macro and micro benefits. On a systemic level, reducing the risk of mismatched hedges reduces vulnerability to sudden shocks. In the absence Reset Risk Management exercises, a participant might be falsely confident that its trades are hedged, when in fact, the mismatch in reset dates or expirations may carry significant risk. By reducing the vulnerability of participants to shocks such as that of the National Bank of Switzerland price adjustment, the system as a whole is made stronger.

On a micro-level, the benefits are obvious. Reset Risk Management exercises reduce a participant's exposure to reset mismatch and mismatched expiries, which is particularly important to longer tenored swaps and on often suddenly volatile Non-Deliverable FX Forwards markets. In addition, such exercises increase the hedging efficiency of a trading book and by simplifying the trading book, reduce operation risk.

c) Initial Margin Optimization

Initial Margin Optimization ("IMO") applies the multilateral contingent trade package solution for the purpose of reducing bilateral or cleared counterparty credit risk (and the associated required initial margin). An example in bilateral trading is where bilateral initial margin (as provided under the Uncleared Margin Regulation) is required to cover inter-counterparty bilateral risk. IMO services create a market-risk neutral contingent package of trades that, when executed by all participants, serves to offset bilateral counterparty risk. Reducing counter-party risk also reduces the initial margin that is required. As with all multilateral contingent package of trades exercises, the resulting transactions are market-risk neutral; thus, although IMO reduces counterparty risk, they do not alter the market risk of each participant's portfolio.

IMO is equally beneficial in reducing margin exposures for cleared swaps. A firm may hold cleared swap positions at more than one clearinghouse. This may be the result of accommodating the preferences of its counterparties. If those swaps net or otherwise off-set risk, a participant may reduce risk (and the required initial margin) by moving a position from one to the other clearinghouse. However, at present there is no way of efficiently moving portfolios of multiple open positions from one clearinghouse to another. IMO facilitates this by proposing transactions that, when entered into, offset an existing position at one clearinghouse (to then be more easily compressed) and reestablishing the position at another. Like all other multilateral contingent package solutions, the resulting trades must be within the specified risk constraints and be market-risk neutral. The IMO process operates in the same multilateral way and seeks to solve for the transactions that optimize all participants risk positions within the constraints provided.

IMO offers significant systemic benefits. Most importantly, it reduces the magnitude of unnecessary money flows of initial margin. On a micro-level, participants achieve significant cost and capital benefits. With respect to non-cleared trades, IMO enables a dealer to optimize counterparty exposures, thereby realizing more efficient use of its capital. This enables a dealer to offer additional liquidity to the market, and ultimately it benefits the client by reducing the cost of carrying a position and the cost of maintaining an account. IMO also offers similar cost and capital benefits in respect of cleared transactions, enabling participants to use excess funds for other purposes.

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2. Rate Replacement

LIBOR is set to be phased-out by the year 2021.[7] It is recognized that replacing LIBOR is "an enormously complicated task" particularly for those swaps that have maturities that extend beyond 2021.[8] This task is complicated among other reasons because the pricing of the SOFR rate, LIBOR's likely replacement in the U.S, differs from LIBOR.[9] As some have observed, "all of the parties involved will need to come to some consensus that the compensating spread between LIBOR and [the replacement rate] is fair and reflective of the original interest rate and credit risk imbedded within LIBOR.[10]

The planned replacement of LIBOR with SOFR as the reference rate for legacy interest rate swaps can be greatly facilitated through multilateral contingent package of trades exercises, either focused solely on replacement of the reference rate or in combination with one of the other forms of multilateral contingent package of trades exercise. This is so because a multilateral contingent package of trades exercise results either in amendment of existing swaps or the creation of new, replacement swaps.[11] If the exercise is undertaken for the sole purpose of replacing the reference rate, the exercise is termed as a "Rate Replacement" exercise. A Rate Replacement exercise operates the same as any other portfolio optimization exercise. The Compression Provider proposes a package of amendments or new swaps along with terminations that optimize the result for all participants and which is market-risk constrained and within the tolerances permitted by participants. All must agree in order for the entire package of transactions to move forward.

Rate replacement can also be factored into the algorithm for any of the other forms of portfolio compression or optimization exercises. The process is the same but for the additional factor of substituting the LIBOR reference rate with another, which is solved for by the algorithm. For example, a compression exercise may be further optimized by taking the compressed legacy swaps that have LIBOR as their reference rate and replacing those swaps with replacement swaps that use SOFR as the reference rate.[12]

The public policy benefits of Rate Replacement multilateral contingent package exercises are clear. Foremost, this process will be essential to meeting the public policy goal of replacing LIBOR with respect to legacy swaps with expiries beyond 2021.[13] Unlike a traditional

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[7] See "Replacing LIBOR: The Countdown Begins," Forbes found at: https://www.forbes.com/sites/tortoiseinvest/2017/08/16/replacing-libor-the-countdown-begins/#208f028d4e2b.

[8] Id.

[9] LIBOR is an unsecured rate at which banks could purportedly borrow from one another, thereby including a bank credit risk premium; SOFR is a near risk-free rate based on overnight repo financing transactions of U.S. Treasury securities. See https://www.afponline.org/ideas-inspiration/topics/articles/Details/libor-vs.-sofr-big-changes-are-coming-for-u.s.-treasurers.

[10] Id.

[11] See Commission Rule 23.500(h).

[12] This is consistent with the definition of "multilateral compression exercise" under Commission rule 23.500(h) which recognizes that in a compression exercise, the compressed swaps may be terminated and replaced with other swaps.

[13] Chairman Giancarlo stated the public policy in encouraging legacy swaps to replace LIBOR as follows:

> Legacy trades can continue to reference LIBOR – what is already being called "Zombie LIBOR" – but imagine the havoc that will be caused in the marketplace if exchanges de-list their contracts, if CCPs cannot accept new swaps for clearing – the whole ecosystem developed to support efficient risk-transfer in our global markets will be in dis-array. Hence, it is critical that legacy positions too move from LIBOR.

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compression exercise, in a Rate Replacement multilateral contingent package exercise there may be no, or limited, reduction in notional amount of the portfolio. But, reduction in the exposure of a portfolio to term LIBOR in preference to exposure to either overnight or term SOFR, furthers the important policy goal of moving away from reliance on LIBOR after 2021. Differences in how SOFR-equivalent trades are priced in comparison to LIBOR necessitates the use of the multilateral optimization process, creating all-or-none packages of new trades in the preferred index, to reach the goal of replacing reference rates. To the extent that public policy favors a phase out of LIBOR, the process to accomplish that conversion for existing swaps should be encouraged. [14]

3. Public policy should encourage portfolio optimization the same as portfolio compression

The public policy favoring multilateral portfolio compression discussed in **Section IV** applies equally to portfolio optimization exercises. Compression Providers, learning from their experience, have advanced the understanding of how a multilateral optimization process can be applied to achieve other, equally important public policy goals. As discussed above, for example, this process along with variations of such can be used to facilitate the replacement of LIBOR as the reference rate in legacy swaps (both linear swaps and non-linear options).

Based on the above descriptions of their common use of the multilateral contingent packages of trades technique by portfolio compression and portfolio optimization exercises and the significant benefits that each form of such an exercise provides, it is clear that the Commission, in addressing the issue of providing a means for multilateral compression to continue to operate under any revisions to the SEF trading framework, should include each of these systemically beneficial uses of the multilateral contingent package of trades process in the solution. Accordingly, although Commission rules currently only address multilateral compression exercises, the Commission's reasoning in adopting Rules 23.503 and 39.13(h)(4) are applicable equally to the various forms of portfolio optimization, and the Commission's consideration of issues related to portfolio compression exercises should not be limited by the current definition of "compression exercise" under Commission rule 23.500(h). Accordingly, we shall refer to both compression exercises and the various forms of portfolio optimization exercises together as "Compression/Optimization."[15]

IV. Commission precedent and current Commission regulatory framework

A. Benefits of multilateral compression exercises

The Commission has recognized the public policy to be advanced through compression exercises. The Commission explained the important public interest in promoting multilateral portfolio compression, stating that

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Remarks of Chairman J. Christopher Giancarlo before 2018 Financial Stability Conference, Federal Reserve Bank of Cleveland, Office of Financial Research, Washington, D.C. found at https://cftc.gov/PressRoom/SpeechesTestimony/opagiancarlo61.

[14] And, as EURIBOR phases out use of the "Cash Internal Rate of Return," a similar process is required for swaps referencing the EURIBOR reference rate.

[15] As noted in footnote 1, supra, the term "Compression Providers" used herein includes those who also provide related portfolio optimization services.

> the benefits of portfolio compression to both individual market participants and to the market as a whole are considerable. The reduced transaction count decreases operational risk generally as there are fewer trades to maintain, process, and settle. The reduction in the outstanding gross notional value of the swaps also allows for increased capital liquidity and efficiency. Firms can set aside less capital for their positions while maintaining their desired risk positions in the market. The diminished operational risk for the individual market participants achieved by portfolio compression, in turn, may lessen systemic risk and enhance the overall stability of the financial markets.[16]

In furtherance of these important public policy goals, Commission Rule 23.503 requires that "each swap dealer and major swap participant shall establish, maintain, and follow written policies and procedures for periodically engaging in multilateral portfolio compression exercises, when appropriate, with each counterparty that is also a swap dealer or major swap participant."

These public policy goals also apply in the clearing context. Commission Rule 39.13(h)(4) requires DCOs to make portfolio compression exercises available to their participants.

The Commission underscored the public policy benefits of multilateral compression exercises in letters intended to assist in implementing the rules. CFTC Letter 13-01 provided no-action relief to multilateral compression exercise providers and their participants from mandatory clearing for the new or amended swaps prescribed to compress original legacy swaps that were not subject to the clearing requirement as a result of a multilateral compression exercise. The letter made clear that it granted such relief, "in order to promote the benefits of compression for uncleared swaps." CFTC Letter No. 13-01 at p. 4.

B. Regulatory framework for Compression Service Providers

In proposing and adopting the initial SEF regulatory framework, the Commission considered the framework that should apply to compression service exercises and the Compression Providers that operate them. The Commission in that rulemaking concluded that a compression service that resulted in the tear up or amendment of existing swaps provided a netting service and would not be required to register as a SEF, saying that it did not believe that a:

> portfolio compression service, as described above, provides for the execution or trading of swap transactions between counterparties because the compression service is providing a netting mechanism whereby the outstanding trade count and outstanding gross notional value of swaps in two or more swap counterparties' portfolios are reduced. Therefore, an entity providing such a portfolio compression service would not meet the SEF definition in section 1a(50) of the Act and would not have to register as a SEF under section 5h(a)(1) of the Act.[17]

Accordingly, the Commission specifically determined that Compression Providers need not register as a SEF. However, the Commission continued that swaps subject to the trade execution mandate, "must be executed on a DCM or SEF and, accordingly, may not be executed on a portfolio compression service (unless no DCM or SEF makes the swap available to trade or the

[16] "Confirmation, Portfolio Reconciliation, and Portfolio Compression Requirements for Swap Dealers and Major Swap Participants," 75 Fed. Reg. 81519, 81525 (December 28, 2010).
[17] "Core Principles and Other Requirements for Swap Execution Facilities; Final Rule," 78 Fed Reg. 33476, 33482 (June 4, 2013) ("SEF Rulemaking").

swap transaction is excepted or exempted from clearing under CEA section 2(h)(7) or as otherwise provided by the Commission)."[18] Because "Required Transactions" under Rule 37.9 are limited to prescribed execution methods, the trade execution mandate as applied to compression exercises under the Commission's interpretation, has presented an insurmountable obstacle to the all-or-none execution of a multilateral contingent package of trades necessary to complete the compression process.

Nevertheless, Compression Providers have found that the multilateral all-or-none execution of the contingent package of transaction can be completed in accordance with Part 37 of the Commission's rules if the proposed replacement swaps are restricted to Permitted Transactions under Rule 37.9,[19] and that a registered IB match the necessary contingent transactions as proposed by the Compression Provider and submit them as a package of trades for execution on a SEF.[20]

The Commission recognized the important public policy goals that multilateral portfolio compression achieves, and the fact that some adjustments in particular regulations might be needed in order to accommodate compression exercises. Specifically, Commission Letter 12-01 provided no-action relief to multilateral compression exercise providers and their participants from mandatory clearing for the new or amended swaps prescribed as a result of a multilateral compression exercise, stating that the relief

> clarifies that amended and replacement swaps, where the original swap was not required to be cleared at the time of execution but that is subsequently amended or replaced in connection with a multilateral portfolio compression exercise after the relevant clearing requirement compliance date (e.g., after March 11, 2013 for a swap between two SDs), are not required to be cleared solely by virtue of being amended or replaced through a multilateral portfolio compression exercise.

As the Letter noted, this relief was granted "in order to promote the benefits of compression for uncleared swaps." Letter 13-01 at p. 4.

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[18] Id.

[19] Such transactions include packages of Permitted and Required transactions, as provided under CFTC Letter No. 17-55 (October 31, 2017).

[20] In an unrelated matter, but which illustrates equally the tension between one set of Commission rules and achieving the policy goals included in the encouragement of multilateral portfolio compression. In adopting Margin Rule under 23.503, Commission considered effect of margin on compression of legacy swaps. Rule 23.152(c) does not permit legacy swaps to remain uncleared if they share a master netting agreement with post-compliance cleared swaps. Accordingly, the credit support annexes of legacy and post-compliance swaps will differ. Because of this difference and the difference in the valuations of legacy and post-compliance swaps caused by the difference in the applicability of the margin requirement, legacy swaps are being withheld from multilateral compression exercises that include both pre- and post-compliance swaps. The result is that legacy swaps that otherwise could be, are not being compressed, and their notional amounts not being reduced. This is a result that clearly is contrary to the public interest of reducing operational and systemic risk. This shows the potential harm to the goals of reducing risk from failure to support compression and to give it due consideration. The commenter respectfully suggests that this issue is one that the Division of Swap Dealer and Intermediary Oversight should consider addressing through no-action relief.

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C. Trade workflow under the current regulatory framework

Compression/Optimization exercises that do not simply amend existing swaps, but result in the creation of replacement swaps must have a means of executing the new swaps. In the case of multilateral exercises which include U.S. participants, a SEF must be involved in the execution of the new swaps.[21] In order to complete the Compression/Optimization process, this means that the new swaps must be executed on an all-or-none basis.

As discussed above, Compression Providers calculate the optimum package of trades that will reach the optimal solution of the exercise, whether to maximize compression, reset risk management, rate replacement, or initial margin optimization. When U.S. persons are participants, the algorithm relies solely on Permitted Transactions or package trades which include Permitted Transactions in reaching that solution. The proposed trades resulting from the mathematic formulations are submitted as matched trades to a SEF (by a registered IB).[22] That trade workflow is currently provided under the rulebooks of a number of SEFs. Generally, transactions that are subject to mandatory clearing are submitted for clearing, notwithstanding the no-action relief available under CFTC Letter No. 13-01. Accordingly, Compression Providers have a clear method of completing the Compression/Optimization process for U.S. participants under the current Part 37 framework and the rules of several SEFs thereunder.

This workflow makes possible the all-or-none execution of the contingent package of trades as proposed by the Compression Provider. Thus, the interaction of IBs with SEFs using Permitted Transactions makes it possible to achieve the important policy goals realized by Compression/Optimization in accordance with the trading framework under Part 37 of the Commission's Rules.

V. Proposal will impede Compression/Optimization

Absent clarification or other accommodations, when taken together, the major structural changes proposed to the SEF regulatory framework, may create unintended obstacles to Compression/Optimization exercises, thereby defeating the important public policy benefits of those exercises noted by the Commission, and potentially making it impossible for Swap Dealers and DCOs to comply with rules 23.503 and 39.13(h)(4).

The Proposal would: 1) subject all cleared swaps listed for trading on a SEF or DCM to the trading mandate; 2) require all broking activities to be carried out by SEF employees; 3) remove restrictions on SEF execution or trading protocols; and 4) prohibit pre-execution communications. Taken together, these aspects of the Proposal might foreclose Compression Providers from carrying out the Compression/Optimization process using the current trade work flow without providing a viable alternative. However, with clarifications of the rules as

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[21] Footnote 88 of the SEF Rulemaking provides that any platform that provides for multilateral execution of swaps must register as a SEF.

[22] As a non-U.S. Compression Provider having U.S. clients, Capitalab uses an algorithm that follows this workflow rubric in order to enable U.S. clients to participate. Proposed transactions that only involve non-U.S. counterparties are subject to EU and not Commission rules. Such non-U.S. transactions are not submitted to a SEF.

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Proposed or other accommodations, the Commission can assure that the benefits of portfolio compression and optimization can continue to be offered to U.S. persons.

A. Reaffirm understanding that Compression Providers are not required to register as SEFs

The Commission in adopting the current SEF rules concluded that Compression Providers need not register as SEFs, reasoning that Compression Providers provide "a netting mechanism whereby the outstanding trade count and outstanding gross notional value of swaps in two or more swap counterparties' portfolios are reduced."[23] As discussed above, Compression Providers apply the same processes and methodology but for purposes other than for reduction of trade count or outstanding gross notional value. The Commission's prior reasoning that Compression Providers are not within the scope of the SEF registration requirement is equally true with respect to portfolio optimization; that is, that Compression Providers provide instructions that result in netting of the portfolio. This may include proposing replacement swaps as necessary to obtain the desired netting effect on a portfolio. In this regard, the netting accomplished by portfolio optimization is not of swap count or notional amount, but rather netting relating to the other risks described above.

The Commission in the Proposal, in interpreting the SEF registration requirement to apply for the first time to IBs reasoned that:

> firms operating trading systems or platforms that facilitate swaps trading primarily between swap dealers—trigger the SEF registration requirement because they allow multiple participants to trade swaps with multiple participants.[24]

Compression/Optimization exercises do not constitute a trading facility as the Commission has described in the Proposal, nor do they facilitate swap "trading." Although Compression Providers offer a rules-based service, they do not offer a transparent market for trading nor do they exercise self-regulatory authority over participants. To the contrary, the Compression/Optimization service is highly specialized, grounded in operating highly complex algorithms that determine the optimum solution to reduce participants' various risks of their post-trade portfolios.

The Compression/Optimization service, unlike a SEF, does not have a price transparency/price discovery purpose. Nor does it operate on principles of supply and demand, like a trading facility. Rather, Compression/Optimization services operate in the opposite manner—the trading solution is determined by an independent third party—the Compression Provider—applying an algorithm and not through the interaction of individual bids and offers. The Compression/Optimization process operates because the administrator knows all of the participants' positions and tolerances and the solution is contingent on every participant agreeing to it. Participation in Compression/Optimization exercises can be based on many factors, none-of which, because contingent package of trades are market-risk neutral, would be related to a view of market prices.

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[23] See footnote 17.
[24] Proposal at 61957

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A contrary conclusion would introduce a disharmony between the U.S. and E.U. regulatory frameworks, making cross border cooperation and deference more difficult, if not impossible. Section 5h(g) provides for exemption from U.S. SEF registration for comparably and comprehensively regulated foreign trading facilities.[25] However, as described in **Section III B,** the EU specifically recognizes that Compression Providers are not, and does not regulate them as, trading facilities. If the Commission were to interpret the Commodity Exchange Act and Proposed Parts 36 and 37 thereunder to include Compression Providers within the SEF registration requirement, it would require a non-US Compression Provider to either register as a SEF or deny access to U.S. persons inasmuch as an exemption would be unavailable under Section 5h(g) of the Act. Such a result would lead to fragmentation of a market service which currently serves global participants, thereby potentially lessening the efficiency of compression or optimization exercises for all.

The Commission in adopting the current swaps rules made clear that Compression Providers are not within the scope of the SEF registration requirement.[26] Capitalab agrees with that conclusion as did BGC when the current SEF rules were adopted and is of the view that that conclusion remains true under the Proposal. Accordingly, Capitalab respectfully asks that the Commission confirm its existing conclusion that Compression Providers need not register as a SEF to operate portfolio compression and extend that understanding to include the same process when applied to optimization exercises.

B. Trade Mandate, information regarding trade facilitation and pre-execution communications

The Proposal does not consider or discuss how Compression/Optimization exercises fit within the proposed revisions to the trade mandate and trade execution requirements. Clarification of how those provisions are intended to apply to Compression/Optimization is necessary to ensure that the benefits of Compression/Optimization continue to be available under the revised framework.

1. Trade mandate

The Proposal under rule 36.1(a) would "adopt a new interpretation of the trade execution requirement that would greatly expand the scope of swaps that are subject to the requirement.[27] The expansion of the trade execution mandate is paired through the repeal of Commission rule 37.9 with greater flexibility on the part of the SEF in developing trade execution methods.[28] The intent of the proposed amendments is to require "more swaps to be traded on SEFs" and that "would help foster vibrant and liquid SEF markets as liquidity formation and price discovery is centralized on these markets."[29]

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[25] In this case, because EU law excludes Compression Providers from regulation as a trading facility, they would not qualify for the exemption.
[26] See footnote 16 supra.
[27] Proposal at 61978.
[28] Id.
[29] Id. at 61981.

With the elimination of required execution methods, the Proposal permits SEFs wide discretion in determining the trading protocols that they will use. Thus, the Commission noted that:

> Historically, market participants have had discretion to utilize execution methods tailored to their particular trading motives and needs, the liquidity profile and characteristics of the swap being traded, and current market conditions, among other considerations.[30]

Accordingly, under the Proposal, "[r]ather than being confined to limited execution methods, SEFs would be able to develop more efficient, transparent, and cost-effective means for participants to trade swaps."[31] However, it is not clear whether this flexibility is as broad as is currently permitted for Permitted Transactions, which includes the reporting of matched trades to a SEF for execution, the work-flow currently used by Compression Providers. In this regard, the Commission has also expressed its expectation with regard to new execution methods that,

> providing for customer choice, while also concentrating liquidity and price discovery onto SEFs, may help create an environment for swaps trading that is better able to promote appropriate counterparty and swap specific levels of pre-execution price transparency than the existing framework.[32]

As discussed above, Compression/Optimization trades do not contribute to price formation and any method of execution designed by a SEF to accommodate execution of a contingent package of trades would not be contributing to liquidity or price discovery on a SEF.

Although the Proposal provides SEFs with the ability to innovate and under proposed Rule 37.201(a)(2) to use discretion in their trade execution processes, the Proposal is unclear whether an all-or-none contingent package of trades arranged by a Compression Provider could be executed as such a package of trades. Absent clarification, if the SEF's discretion to determine its protocols, in the Commission's view, would not encompass the ability of the SEF to execute the contingent, all-or-none package of trades that are the result of a Compression/Optimization exercise, the Commission's approach of requiring all cleared swaps that are listed on a SEF to be executed on a SEF may have the unintended consequence of creating an insurmountable obstacle to Compression/Optimization exercises. If the Commission intends that Compression/Optimization exercises be included under the trade execution mandate, it should clarify explicitly that a SEF may provide in its trading protocols for the execution of a contingent package of trades that are submitted by a Compression Provider as an all-or-none package of trades.

The result of this clarification would be that the role performed by IBs currently as a bridge between the Compression Provider and the SEF could be served by the SEF itself, either by its employees or by a specialized automated application whereby the Compression Provider could enter a package of trades into the SEF's systems. Under this potential scenario, a Compression Provider would operate a compression or optimization exercise and provide the list of proposed trades to the SEF as a package either electronically or to a SEF employee. This basically

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[30] Id. at 61981.
[31] Id. at 61982.
[32] Id.

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replicates the current workflow, but through a registered SEF without the intermediation of an IB.

2. Information regarding trade facilitation

The Commission has recognized that some acceptable execution methodologies may not rely on the interaction of bids and offers in the market to determine prices and that the SEF must inform market participants of the types of discretion and the sources of information that are used in determining such prices. Where bids and offers are not used by a SEF for price formation, the Commission would require under Proposed rule 37.201(a)(3) that SEFs adopt rules disclosing the sources and methodology for generating price information that facilitates trading and execution. Specifically, the Proposal would require that "[w]here pricing [is] generated by a SEF in lieu of pricing based on market participant bids and offers," the requirement that SEFs

> inform market participants as to their price formation sources and methodology would foster open and transparent markets and promote market integrity and efficiency. Requiring a SEF to disclose the sources of information used to generate a price and the methodology for calculating that price, for example, would allow market participants to be aware of prevailing liquidity and market conditions, thereby helping them to form views as to whether that price is an appropriate indicator of a particular market.[33]

Compression/Optimization, like the above example, does not rely on the interaction of bids and offers in establishing the price of the trades included in the contingent package of trades. However, although Compression/Optimization trades are facilitated by the Compression Provider using information other than bids or offers, the proposed requirement of rule 37.201(a) would not be applicable. First, Compression/Optimization does not result in price information relevant to current market prices. Secondly, information relating to the Compression/Optimization service is provided to participants by the Compression Providers. In the case of Capitalab, this is through the service protocols. Such information regarding the Compression/Optimization process is not relevant to general market participants of the SEF because the resulting trades do not contribute to price formation on the SEF. Moreover, the algorithms used by Compression Providers are highly confidential as is the information about the participants' portfolios and the constraints that they select. Accordingly, the Commission should make clear that the proposed requirement of rule 37.201(a) does not apply to the Compression/Optimization process.

3. Pre-execution communications

The Commission is proposing under rule 37.201(b) to require SEFs to prohibit all pre-execution communications that relate to transactions subject to the trade execution mandate that take place away from a SEF, subject to two exceptions. The Commission reasons that, in light of the more flexibility that the proposed rules would permit in the method of trade execution,

> pre-execution communications, including the negotiation or arrangement of those swaps, would be able to occur entirely within a SEF's trading system or platform. Such negotiation or arrangement, regardless of the method through which they may occur, i.e.,

[33] Id. at 61984.

among participants themselves or through a swaps broking entity, constitutes ''trading'' that should occur on a SEF.[34]

Pre-execution communication is integral to the Compression/Optimization process insofar as it typically requires the consent of all participants to the proposed package of trades. Accordingly, a prohibition on pre-execution communications in connection with Compression/Optimization exercises would present an insurmountable obstacle to their being made available. Fortunately, Compression/Optimization exercises likely are within the scope of the proposed exceptions. As discussed below, however, clarification and explicit confirmation by the Commission that Compression/Optimization exercises may fit within both exceptions would be helpful.

More importantly, however, the condition of the package trade exception to the ban on pre-execution communications requiring that one of the components to the package not be subject to the trade execution mandate is overly restrictive in view of the dramatic proposed expansion of the trade mandate when applied to Compression/Optimization transactions. Absent modification, that requirement would likely exclude many Compression/Optimization exercises that currently take place. For example, with the proposed expansion of the trade execution mandate, this requirement might exclude from the exception on pre-execution communications Compression/Optimization exercises in which all component swaps are cleared. Such a result would call into question the ability of DCOs to comply with the requirement under Commission rules 39.12(b)(iv) and 39.13(h)(4).

a) Exception for trades not subject to the trade execution mandate

The Commission proposes under rule 37.201(b) that counterparties to transactions that are not subject to the trade execution mandate may engage in pre-execution communications. The Commission reasons that this exemption is appropriate because

> market participants do not have to execute such swaps on SEFs. The Commission also acknowledges that two counterparties may initially discuss or negotiate a potential swap transaction on a bilateral basis away from a SEF with the intent to execute the transaction away from the SEF, but subsequently determine to submit the resulting arranged transaction to be executed on a SEF. The Commission believes that applying the proposed § 37.201(b) prohibition to swaps not subject to the trade execution requirement would not be practical, given that counterparties do not have to execute these swaps on a SEF.

This exception would be helpful only insofar as Compression/Optimization exercises would be able to be limited solely to swaps not subject to the trade execution requirement. Although this may be possible, it is far less likely once the trade execution mandate has been expanded. Additionally, new swap tenors from a Compression/Optimization are chosen as those frequently traded on for example IMM dates to make them easier to compress in later cycles.

Moreover, the preamble discussion assumes that only bilateral discussions could take place consistent with the SEF registration requirement of proposed rule 37.3(a). The discussion in the

[34] Id. at 61986.

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preamble refers only to "two counterparties" discussing a "potential transaction on a bilateral basis" and continues that,

> The Commission emphasizes, however, that this proposed exception does not affect the SEF registration requirement under proposed § 37.3(a), which would specify that a person operating a facility that meets the statutory SEF definition must register as a SEF without regard to whether the swaps that it lists for trading are subject to the trade execution requirement.[35]

However, as discussed above in **Section IV B**, the Commission has previously taken the position that multilateral compression exercises do not trigger the registration requirements of the Act. Accordingly, it would be helpful for the Commission to clarify that although typically this proposed exemption will be available for bilateral discussions, it would also apply to multilateral Compression/Optimization exercises, depending upon the swaps in the submitted portfolios.

Nevertheless, even with that helpful clarification, with the Proposal's expanded universe of swaps subject to the trade execution mandate, this exception likely would be an insufficient basis for the Commission to be assured that the benefits of Compression/Optimization exercises could continue to be offered under the amended framework.

b) Exception for package trades

The Commission proposed to except certain package trades from the prohibition on pre-execution communication. As proposed, the exception under rule 37.201(b) provides that "Counterparties to a swap that is subject to the trade execution requirement . . . may engage in communications away from the swap execution facility if the swap is executed as a component of a package transaction that includes a component transaction that is not subject to section 2(h)(8) of the Act." Moreover, the proposed rule would require that:

(i) Execution of each component transaction is contingent upon the execution of all other components transactions; and

(ii) The component transactions are each priced or quoted together as part of one economic transaction with simultaneous or near simultaneous execution of all components.

Although the exception for package trades has the potential to offer a means of assuring that the benefits of Compression/Optimization exercises will continue to be available to the market under the proposed framework, certain clarifications and changes would be required. [36]

i) Requested clarifications—

Most importantly, the requirement that a package trade include a swap not subject to the trade execution mandate may exclude a great many Compression/Optimization exercises from the

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[35] Id. (footnotes omitted).

[36] Although there may be other solutions so that multilateral compression exercises are not impeded by the rules, such as excluding Compression/Optimization exercises under section 4(c) of the Act from the Act's trade execution mandate (but not the clearing mandate), we believe that clarifying that the proposed package exemption includes these trades fits most closely within the existing proposal and is a workable solution that will enable compression services to continue to be offered to the market under the new framework as proposed

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exception. In this regard, Compression/Optimization routinely includes trades subject to the mandatory clearing requirement. Indeed, Commission rules 39.12(b)(iv) and 39.13(h)(4) apply compression requirements on DCOs. It is difficult to understand how DCOs will be able to comply with these obligations under the proposed rules if there is no means to engage in pre-execution communication with respect to package of compressed trades that are all subject to the trade execution mandate. Under the proposed expansion, many, if not all, of those DCO-related compression exercises might be excluded from the scope of the exception if the swaps are all subject to the trade execution mandate.

To address this unintended consequence, Capitalab respectfully requests that the Commission make clear in the text of the final rule, or confirm in the preamble, that the pre-execution communication exception for package trades includes the packages of trades that result from Portfolio Compression or Portfolio Optimization exercises, regardless of whether they have one component that is not subject to the trade execution mandate. To assure that this exception is properly limited, such package of trades would be required to have the following characteristics:

- The transaction is a multilateral contingent package of trades, i.e. all participants must accept the solution that benefits the most participants;
- The component transactions are determined by running an algorithm applied to all submitted data points; and
- The component transactions are part of an overall package of transactions that is executed simultaneously and must be market risk neutral, or very near to market-neutral, that is, every buy must be offset by an equal and opposite sell (approximate risk weighted, within prescribed participant risk constraints).[37]

These characteristics include both traditional compression (where a new buy/sell could be offset by a compressed or "ripped up" buy/sell) and the newer multilateral package services—reset mitigation, rate replacement, and initial option optimization, and other similar optimization services that may be developed in the future using this same process.

Finally, it would be helpful for the Commission to affirm that the exception to pre-execution communications includes the ability to report a matched trade for execution to the SEF. The current rule permitting pre-execution communications, in contrast to the ability to report a matched Permitted transaction to a SEF for execution, requires that such pre-discussed orders be exposed to the market for a defined period of time. This permits others in the market to take the contra-side of such a pre-discussed order. However, in order to be effective, the package of trades resulting from a Compression/Optimization exercise must be executed precisely as provided by the algorithm. Footnote 339 of the preamble suggests that the exception from a prohibition on pre-execution communications includes relief from required exposure to the

[37] The preamble refers in various places to "a package transaction." As discussed above, the Compression/Optimization process results in a package of trades. That is, the execution is on an all-or-none basis of a package of component trades. It would be helpful if the Commission would confirm that the exception for package trades when applied in the context of Compression/Optimization exercises includes such a package of component trades.

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market,[38] but it would be helpful for the Commission to explain explicitly that the exception is intended to operate in this manner.

VI. Conclusion

Multilateral compression offers the market important systemic risk benefits. The same process has been applied to risks other than the size or notional amount of portfolios. These other uses of this process—portfolio optimization—achieve important systemic risk benefits not achieved by compression exercises or by compression alone. Capitalab though its experience as a Compression Provider has expanded its offering from traditional compression to these new forms of portfolio optimization.

Compression Providers have found a way to offer these services within the current framework of Required and Permitted Transactions. The Commission has recognized the benefit of these services and has provided targeted relief as necessary so that these services can be made available to the market.

Capitalab currently offers its services to both U.S. and non-U.S. participants. Capitalab operates from the E.U., which does not subject compression or portfolio optimization exercises to any trade execution requirement. Capitalab has identified a number of possible unintended consequences that may result from the proposed rules. Absent remediation, these glitches might result in splintering U.S. Participants from the global market for compression, or perhaps present an obstacle to U.S. Participation in any compression or optimization exercises. We believe that these issues are readily addressed in the final rulemaking.

Capitalab suggests that in adopting final rules, the Commission clarify that: 1) Compression Providers need not register as SEFs, 2) Compression/Optimization exercises result in a package of trades that qualify under the package trade exception from the prohibition on pre-execution communications; and 3) SEFs may provide protocols permitting them to execute trades as reported to them as matched orders of the participants of a Compression/Optimization exercise.

By including these clarifications, the Commission will assure the market that Compression Providers will continue to offer their Compression and Portfolio Optimization services under the revised rules, benefitting participants and the market as a whole.

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[38] Proposal at 61988 (Swap components in the following categories of package transactions are currently subject to relief from the required methods of execution under existing § 37.9).

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Capitalab would be pleased to discuss our comments at greater length with the Commission. Please feel free to contact Michael Sweeting, Global Head of Risk Mitigation for Capitalab at (+44) 207 894 7103 or Paul M. Architzel, of WilmerHale, outside counsel to Capitalab at (202) 663-6240, with any questions about this comment.

Respectfully submitted,

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