UNITED STATES OF AMERICA
COMMODITY FUTURES TRADING COMMISSION

# ROUNDTABLE ON TRADE EXECUTION REQUIREMENTS

# AND PACKAGE TRANSACTIONS

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MARK WETJEN

**Panelists:**

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STEPHEN BERGER

JAMES CAWLEY

ALESSANDRO COCCO

MARCUS DENNE

BRYAN DURKIN

CHRIS FERRERI

DOUGLAS FRIEDMAN

PARTICIPANTS (CONT'D):

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JOHN HORKAN

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MARIAM RAFI

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P R O C E E D I N G S

(9:04 a.m.)

MR. MCGONAGLE: Good morning, everyone. Thank you for coming to the staff roundtable to discuss package transactions. Chairman Wetjen will be joining us shortly. Commissioner O'Malia is here and I'll defer to him for opening remarks.

COMMISSIONER O'MALIA: Thank you very much. Thank you for setting this meeting up.

Can everybody hear me? Well, thank you very much for calling the roundtable. I greatly appreciate it. Build on the work that we had at the tech -- it's still not working. C'mon guys.

How about now?

MS. MARKOWITZ: Why don't you sit here?

MR. MCGONAGLE: This was not intentional.

COMMISSIONER O'MALIA: It worked fine last week, earlier this week.

Thank you to the staff for organizing this and thinking about this issue in much greater detail, and then thank you all to the participants who have joined us here, some of which have a repeat call from the TAC meeting, and that's really good because we had a good discussion opening the TAC meeting about several of the challenges going forward, and in particular, what do each of these package trades mean and how do we solve each individually? I mean, they are all slightly unique. We've got operational, technical, and jurisdictional issues that have to be addressed, and I hope in this venue we certainly address those in their own right and really develop a solution going forward.

I think on Monday we'd also talked about a timeline. The 90 days is good relief, but does that work for all of those packages? I know a lot of people are asking for certainty going forward. What happens on the 91st day? Will there be additional relief going forward depending on the package? So let's unpack that issue here today and figure it out.

And then the final point I'd like to make is, like you, I have some questions about certainty, and I'll certainly ask the staff to clarify this. There seems to be some disconnect or some uncertainty between what the relief provided in the No-Action letter and the press release, because the press release talks about complying with the rule or offering a rule change -- the staff offering a rule change. It's uncertain as to what that means. Does it mean a block? Does it mean an EFRP? What is it -- where is the safe and certain ground on that? And then certainly, how do people comply with that? I hope we can answer that because I'm a little confused as to what the press release actually means between the two prongs between 37.9 and complying with that and then also having a rule change recommended by a SEF. So if we could clarify that.

I don't want to waste any more time talking. I want to listen to everybody's thoughts, input, et cetera. So thank you again everyone for attending and adding their voice to a solution here. Thanks.

MR. MCGONAGLE: Thank you, Commissioner O'Malia. I appreciate the introductory remarks.

Let's get started. I have just a few, very brief comments because I am also very interested to hear what the participants have to say and what questions they have concerning these transactions.

Today, the CFTC Division of Market Oversight staff is hosting this roundtable to discuss the application of the trade execution requirement. We are building off of the discussions that we've had over the past several weeks concerning questions about how the trade execution requirement applies, particularly in connection with those transactions that are bundled in what people are referring to as package transactions. We had a very thoughtful discussion on Monday, and I hope that this conversation can build on the comments and points that were raised during Monday's conversation.

All transactions involving swaps that are subject to the trade execution requirement must be executed through a DCM or SEF. We articulated this in connection with the first self-certification announcement in mid-January. To the extent that swaps are subject to the trade execution requirement or executed on a SEF, they must be executed in accordance with the execution methods provided by commission regulation. In mid-January, division staff clarified that the inclusion of a swap subject to the trade execution requirement and a multi-leg transaction would not per se, or in and of itself, relieve market participants of the obligation to trade such swap through a DCM or SEF.

So in order to further consider operational issues concerning the building of transaction, order entry, and execution technology, the division is holding this public roundtable. We've organized the roundtable with three sessions in which all panelists can participate, and we'll begin by allowing each panelist to briefly introduce themselves and the organizations that they represent.

To quickly review the format and to facilitate open discussion on the main topic, staff have prepared questions for the panelists to guide the discussion. We'll begin our Q&A regarding the scope of term package transactions and the type of package transactions now.

I'll turn it over to Nhan, who is coming to moderate the session. Thanks.

MR. NGUYEN: Thanks, Vince. If we could just quickly go around the table and have everyone introduce themselves, starting with staff first.

I'm Nhan Nguyen with the Division of Market Oversight.

MR. SMITH: Roger Smith, Division of Market Oversight.

MR. RADHAKRISHNAN: Ananda Radhakrishnan, Division of Clearing and Risk.

MR. MCGONAGLE: Vince McGonagle, DMO.

MS. MARKOWITZ: Nancy Markowitz, DMO.

MS. LEE: Jasmine Lee, DMO.

MR. VAN WAGNER: David Van Wagner, DMO.

MR. CAWLEY: James Cawley, Javelin.

MR. BARSOOM: Peter Barsoom, ICE.

MR. BERGER: Stephen Berger from Citadel.

MR. COCCO: Alessandro Cocco, JPMorgan.

MR. DENNE: Marcus Denne, from Bank of America/Merrill Lynch.

MR. DURKIN: Bryan Durkin, CME Group.

MR. FRIEDMAN: Doug Friedman, Tradeweb

Markets.

MR. HARRINGTON: George Harrington, Bloomberg.

MR. HIRANI: Sunil Hirani, TrueEX.

MR. ZIKAS: Tom Zikas, State Street/SwapEx.

MS. STRANG: Sara Strang, Goldman Sachs.

MR. SOLINGER: Nick Solinger with Traiana.

MR. SENFT: Dexter Senft, Morgan Stanley.

MS. RAFI: Mariam Rafi, Citi.

MR. O'CONNOR: Steve O'Connor, ISDA.

MR. MARON: Jeffrey Maron, MarkitSERV.

MR. LILLVIS: Matthew Lillvis, Millennium Management.

MR. HORKAN: John Horkan, LCH.Clearnet.

MR. RADHAKRISHNAN: Message for our telecom people. You all figure it out. It's clear here. It's not clear this side and this side because there's feedback, and some people who introduced themselves we couldn't hear, so this is a message for the telecom people. Okay? All right. Thanks.

MR. NGUYEN: I think we have someone on the phone as well calling in.

SPEAKER: Mr. Ferreri is not on the line. Mr. Ferreri has joined us. Stand by, please.

MR. NGUYEN: Okay. Why don't we just get started? So the first question we want to direct to the panelists is with regard to scope of package transactions. When we use the term or we refer to the concept of package transaction, what are we -- what sort of transactions are we talking about? In the comment letters and some of the correspondence we've received, the commenters have discussed --

MR. MCGONAGLE: We may have to just use voice rather than having it technology enhanced.

MR. NGUYEN: Sorry for the technical difficulties. Is this better?

Let me try again. So the first question, and this is directed at all the panelists, it's a general question of what is the scope of package transactions. What's sort of the universe of transactions that we're talking about that are transacted in the market today? What are the types of packages that the execution venues expect to list for offer for trading?

Feel free to answer the question. It's not directed at anyone in particular.

MR. BERGER: I'm happy to start off and posit a definition.

So generally speaking, we think of package transactions as involving the simultaneous pricing and execution of two or more component instruments. For the purposes of this discussion, I think one or more of those it's fair to say is a Made Available to Trade (MAT) swap and then the other are either is a non-MAT swap. It could be a cash bond. It could be futures or other type of in this case I'm talking about a rates product, but you could think of analogies in the credit space as well.

It would be a combination of buys and sells or payers and receivers in the swap context. There would be a reasonable degree of correlation between the offsetting legs and the risk of the offsetting components is approximately equivalent. In the rates context we think of that as the package being duration neutral or having been multi DV01 exposure. I think there have been slight variations of that definition posited in the various requests for no-action relief, so there's some slightly more technical ones. I think in the no-action relief that was granted, the definition is a little broader for the time being, but we can debate what additional granularity needs to be applied, but I think it's a baseline and those are the four characteristics of the definition.

MR. MCGONAGLE: With respect to how we articulated the definition within the relief that we gave, just so I get sense, are there questions or concerns about whether there are categories of package transactions that are not covered within the proposed relief that we should be aware of?

MR. VAN WAGNER: Can I actually ask a follow-up? When you talk about simultaneous pricing and execution of a number of component transactions, what typically happens? I mean, is the execution done at a single price for the package? The transaction is essentially executed and then when the component transactions are broken out, are they priced subsequently or what's the timing wise of or the pricing of the package components as opposed to the overall package?

MR. FERRERI: Was that David?

MR. VAN WAGNER: Yes, that was David Van Wagner.

MR. FERRERI: You guys still can't hear me, can you?

MR. VAN WAGNER: I was anticipating you going on to question two, so before that happened I wanted to -- or a second question from Nhan, so before that happened I wanted to ask about that.

MR. SENFT: If I could take a stab at your question and the definitional question.

First of all, simultaneity is in some markets difficult to accomplish if we mean simultaneity in the physical sense. There will be transactions that we could consider packages where both legs may be done in electronic markets and you could submit both orders simultaneously. The actual execution time might vary by tenths of a second, but obviously the intention is to do them simultaneously. There needs to be some leeway around the literal definition of simultaneous.

But in answer to the other question, I would use by way of analogy the basis trade in the futures market. So this is where you've got one leg that's a future. The other leg is a cash instrument, typically a U.S. Treasury bond, and in that market, to the extent that a dealer is quoting the basis, one leg of that trade, specifically the futures, is going to get done at a price that is typically beyond the dealer's control. So what will happen is that the price of the cash security will be adjusted to deliver the customer the quoted price. So we need to allow, you know, as much as possible, the ability for liquidity providers, for market makers to quote prices in that context and be able to make the packages, the prices of the individual leg, consistent with the price of the package.

MR. RADHAKRISHNAN: So in your example, the price of the Treasury is adjusted post-execution; is that what you're saying?

MR. SENFT: Well, it's adjusted so

that -- because the Treasury is an over-the-counter instrument, it's adjusted at the time of execution. It's agreed that that will be the price that gave the basis that was originally quoted to the customer.

MS. STRANG: And if I might add to that from the swap spread example, the price of the swap spread trade is absolutely contingent upon it being a package trade. And then post-trade, subsequent to the execution, the price of the Treasury and the rate of the swap at which you actually book the trade are determined. But that price of that spread trade is 100 percent dependent on that trade being a package.

COMMISSIONER O'MALIA: For discussion, we have -- from the TAC meeting, we have the Citadel presentation which (a) gives us definition and then lists all the kinds of variations on package trades if you want to use that as a reference.

MR. NGUYEN: I appreciate that. So in terms of the overall trading in the swaps market, relative to the trading of outrights, what -- I mean, what percentage of trading that occurs,

occurs as sort of the form of package transactions? I mean, can someone give us an estimate?

MR. CAWLEY: Sixty percent. Sixty percent. Roughly the entire entity to market trades on a spread basis. And if you assume -- well, let's not assume -- they're roughly about 45 percent of the overall market. And then if you include other types of packages, meaning butterflies, which are three-legged swap transactions, so I would trade threes, fives, sevens, twos, fives, tens, whatever, and you include packages versus corporate bonds, mortgages, invoice spreads which are swaps versus futures, it adds up to around 60 percent.

MR. NGUYEN: And of that amount is it mostly concentrated in interest rate swaps, credit default swaps?

MR. CAWLEY: You're' asking an interest rate swap versus a credit default swap?

MR. NGUYEN: I mean, of the packages that are trade in market, is it mostly concentrated spreads, curves, butterflies, mostly all interest rate?

MR. CAWLEY: Yes. I would say of the packages, 80 percent of the packages -- 80 percent of the packages are specifically swaps versus U.S. Treasuries.

MR. HARRINGTON: I would offer a slightly different view. From the trading that we see on the SEF today, and really in the pre-SEF days, packages would represent interest rates less than 10 percent, and then in CDS, in the index space, only really around the roll would you actually see a lot of package transactions. For CDS index, less than 5 percent or even really less than that would be package transactions. So I think it's, you know, depending on your view, but certainly from what we can see going through our SEF, it's a very, very small percentage of both credit and rates.

MS. RAFI: If I could add on the CDS point, there are some CDS transactions that trade as packages which wouldn't necessarily go through a SEF. For instance, any index tranche trading is done on the basis of a delta neutral package where the index tranche are sent out on the basis of a certain index reference level. And the two are very much priced together.

MR. NGUYEN: I'm sorry, we're having a little bit of trouble on our end, and until we get those issues fixed, maybe if the panelists can just raise your voice a little bit.

MS. RAFI: Sure, sorry. So in the CDS space, for instance, there are transactions that happen off SEF as packages as well. So, for instance, in the index tranche space, the tranches are very much traded with a delta hedge of index against them. That's how they're quoted in the market and the execution happens simultaneously. It would be very hard to operationally facilitate that as to two separate components because all the references prices are based on a certain index reference level and that's how they're quoted in the market.

Similarly, there are also a lot of index arb trades that are done as packages where, you know, the single name components are traded versus the index itself. And again, you know, it wouldn't go through a SEF because single names of, obviously, you know, not on SEF at the moment, but they do represent a significant portion of the trading in the market.

MR. SENFT: I think it's important to note that both Jamie and George are right within their own particular context. The Commission should understand that the needs of customers are different from those of dealers. Jamie is saying that a lot of inter-dealer trading is done as package. George sees mostly customer flow. That's less package-oriented. The market is very young and especially in the interest rate space, only a small percentage of trades that would soon be required to be done electronically are being done electronically on SEF today. So I think we need to, if nothing else, agree that the most important gauge of how much of this is going to be packaged will be in the data that we all gather over the next 90 days.

MR. BERGER: Just to follow up on the distinction that Dexter made, I think it's important to -- even though we are moving towards a construction ideally where we have an all-to-all market, you know, historical structure has been a dealer-to-dealer market and a dealer-to-customer market. And so when we think about the volumes, one thing that I caution against is some of the interpretation of what's been done is so we're exempting half the market. I would argue that the dealer-to-dealer market for some of these common types of package transactions, like swap spreads, is already largely electronically and traded on venues. That's not going to change by virtue of providing more time to figure out the right solutions for the dealer- to-customer market and to transpose some of what's worked well in dealer-to-dealer market liquidity and transposing that and making that work for the dealer-to-customer space.

So I just caution against the conclusion being we're somehow exempting half the market because certain aspects of that market already, by my understanding anyway, are trading efficiently on exchange-like venues in the interdealer space.

MR. SRINIVASAN: I'm sorry. This is a question to the industry I guess here which is at the staff level we are always asked, "Give us some data." For instance, there was this quote that was in the press yesterday saying that (inaudible) of the swaps market is being sort of given some relief, and in the TAC meeting the other day we discussed the challenges we are facing in terms of looking at the data. And I didn't find this. So there's a sort of basic measurement issue that we are facing.

So looking to the community here and reaching out and trying to see if you guys can help us provide data on the transaction counts for these package trades. So to the extent you're seeing this activity happening on the platforms, what can you do to sort of share that information with us so that we can sort of take an informed position here? We are completely in the dark in terms of what is happening. Anecdotal evidence being shared.

MR. CAWLEY: Sure. Let me see if I can answer that.

I think, you know, I think you don't want to look at the next 90 days for data. What exactly are you looking for? You know, the fact is, you know, as somebody who has traded swaps, first at Solomon, then at Lehman, then at Bank of America, you know, since the early '90s, these transactions are not new. They're not. They've been around since the late '80s. So there's plenty of data. And the fact remains that 50 percent of the market does trade versus spreads, and trades quite well in spread form without any operational disruption whatever and has done for the past three decades. So I wouldn't necessarily -- I don't see why 90 days of data, with all due respect to Dexter, is going to help you. You can look at the last 30 years of data. The fact is there is completely -- with specific reference to swap versus Treasury trades -- let me be very clear. There's three decades of data. There's no operational disruption in that marketplace. And, you know, and the fact is that you did exclude that with your exemptive relief. So I don't know what you're looking for in the data, with all respect.

MS. STRANG: Let's be clear on the data. I think it's very important when we look at this. It highlights some of the issues we're facing in terms of identifying package transactions. When these trades are booked, they are booked as two separate trades. And currently, the industry doesn't have a consistent way of tagging these trades as package trades. So even if you ask me internally to go through my database and tell you how many of my swaps are versus other swaps or versus Treasuries, I can't tell you right now because we don't have a consistent protocol across the industry for that. So that's the challenge in terms of coming up with this data.

I hear you on the interdealer trades. We all know that interdealer market trades, almost 100 percent on swap spread trades, and the swap dealers themselves are all members of the clearing corps so they can clear --

MS. MARKOWITZ: Could you talk up a little bit? I'm sorry.

MS. STRANG: Oh, sure. I'm sorry.

MS. MARKOWITZ: I'm sorry.

MS. STRANG: No problem. So just to back up for a second. So in terms of the data, it's very difficult right now for the industry to identify which swaps are versus other swaps are versus securities are versus futures. And that's because the legs currently are booked separately and there's no common tagging. Right? So when we talk about data, it's more of an anecdotal discussion because we know that in the interdealer market we trade most things by a swap spread. So we can make an assumption about that.

Now, in the interdealer market particularly, as James points out, the dealers themselves are able to do these trades through the brokers which are SEFs right now because the dealers are also members of the GSD. They're all members of the Treasury clearing corps. Right? In the rest of the marketplace we don't have that situation. So that's where the challenges go with broadening the SEF requirement to include package trades involving swap spreads with clients. That's one of our challenges. But I think in terms of the data we've got to be very careful.

MR. CAWLEY: If I could respond, Sara, directly to you. Certainly, when we trade swaps, when I've traded swaps in the past, I generally know if I'm trading it on a pure basis or if I'm trading it versus spread with Treasuries. And I am trading that as a package because I need hedges. So, internally, at every firm that I've worked, we typically know the difference. We tag them.

So is the goal here to have some sort of industry consensus as to how each company tags their individual trade? I don't think so. With regard to the settlement of the Treasury leg, our Treasuries settle next day, and it's well defined and it's a well-oiled machine as to how they settle. And they settle not only within DTR -- within the DTR community; they settle with the buy side as well. In fact, anyone can buy a Treasury and they clear delivery versus payment T+1, which almost makes it very easy because the swap leg trades and settles in seconds. So if you have an issue with the swap leg, the Treasury leg is canceled.

It would be a challenge, I agree with you, were it flipped. If we cleared the swap T+1 and we had the Treasury leg, that -- which would be immediate settlement. Let's say we traded it and the Treasury leg for some reason traded or cleared in 30 seconds and the swap leg took a day to clear, that would create, I agree with you, a significant operational challenge. But in this instance, due to the current clearing regime, the opposite is the case. And so therefore, there is no operational challenge.

MR. SOLINGER: I would add something to the discussion in that there's a lot of focus on how trading can or is being conducted in voice or electronic, and that's an element of it. The element with it being MATed is that there are these bookends around the structure added for things that are mandatory cleared and MATed, which are ordered and screened against FCM limits before entering an order book. And once executed, they're screened by the DCO against FCM limits with void ab initio applying if they violate them. And that's two new constructs that interact in a way with the conventions for trading packages that create disruption for participants.

So you can have clients blocked from placing orders if they aren't aligned together, and you can have trades rejected at DCOs -- individual elements of packages rejected at DCOs.  So while you may be right, everyone may really understand these products, a butterfly doesn't get an effective limit check today under the pre-trade checking regime, and a butterfly isn't evaluated properly by the DCOs in terms of its net risk and cleared atomically rather than individual legs.  This is new.  And so that's why there's immediately a focus on some of the technical limitations of messaging and tagging because there are actually dramatic implications of packages that may have been around for 10 years moving to electronic markets and mandatory clearing and now subject to the unfortunate uncertainty that comes from rules designed to create certainty.

MR. RADHAKRISHNAN:  Can I just make a point?  The debate so far strikes me as follows. Imagine there's a change in the tax code which you don't like.  What you guys are in effect saying is that you don't want to pay more taxes until a new regime comes into place and they change the tax code and you are applying to the government for relief not to pay the next taxes because of a statutory change because you don't like it.

And here's what I say it. I think what's missing is the fact that what the Commission did or what's happened now is that you're requiring certain swaps to be traded on a subject of the rules of a SEF. We're not saying that cash Treasuries have to be traded on or subject to rules of a SEF, number one. Number two, I think some of you said that some of these packages involve futures contracts; right?

Now, why can't the same construct that applies in the futures -- and nobody is claiming that you are allowed to trade a futures contract outside of a futures exchange; right? Nobody is saying that. You've got to trade a futures contract subject to the rules of a contract market. What I don't understand is what is so new about these packages involving swaps that you cannot trade the swap subject to the rules of a SEF. That's what I don't understand.

MR. MARON: I think the issue is that we've added in a new dynamic to the process that didn't exist historically. And that is when we add in the pre-trade credit check and the need to be able to do a transaction that has multiple legs, whether it's a butterfly with three legs or a spread, today when those are sent to clearing, they're not marked in any fashion as being sent as a package. And as a result, as they flow in, each one goes in independently.

If we're going to pre-trade check them and ensure that their capacity exists at the FCM to do that transaction, we need to look at them as a group. They need to flow through as a group. They need to be marked as a group. There needs to be a mechanism in which they are identified as such when they're traded and when they're sent down, none of which really exists. That structure is not in place. So if we were to check them and send them down leg by leg, it may be that an individual leg would fail the credit process further downstream, whereas as a group they could go through. And there's no mechanism right now to be able to put together --

MR. RADHAKRISHNAN: So it's a communication issue?

MR. MARON: Right.

MR. RADHAKRISHNAN: Right? What you're saying is that you guys haven't figured out how to tell your FCMs that this is what it is you want to do.

MR. CAWLEY: Well, let's be clear. Because what I've heard from Nick and from Jeff, conveniently both the pre-trade credit hubs, is that there are logistical issues with regard to swap packages which are swap versus swap. And while I agree with Nick and Jeff to some extent, let's be candid. You're not clearing Treasuries. So, what Ananda, you are saying is perfectly correct, the Treasury leg clears through its own mechanism and, in fact, is regulated by its own entity. And Javelin, when we began to offer Treasury spreads, we recognized this very early on and we took a feather from the interdealer marketplace and we went out and we applied for a broker-dealer license so we could clear Treasuries because that's what the law required. We also, as part of that application process, had to describe to FINRA what we were doing. And so they gave us the okay to say we can trade Treasuries on one side and swaps on the other.

Now, so there's categorically -- with

swap spreads, just to be clear, there's no operational issues with those guys. And I think though when you say butterflies there is a bit of an issue. Now, would it be nice to tag a trade fives, sixes, sevens -- five, sevens, tens, such that you could have optimal margin allocation on those trades on a pre-trade basis? Sure. But there are lots of other issues with the pre-trade credit hubs today that also need to be addressed, and we're not looking for exemptive relief for that either.

Give you an example. Today, on certain pre-trade credit platforms, when we ping them for 100 million, let's say, and there's a partial fill of 25 million, the entire -- the pre-trade credit hubs will only recognize a full use of the 100 million, when only 25 million has been used. And I think that that's a pretty real issue and needs to be addressed as well.

So the question is, where do we need the regulators and the U.S. Government to come in and bring this about? I mean, there's lots of issues that need to be addressed with some of these package trades, but I fail to see the need where the government needs to intervene.

MR. LILLVIS: One distinction I would draw with the example in the futures market is that the futures market has a type of vertical integration between the trading platform and the clearing house that Dodd-Frank has purposefully gotten rid of in the context of trading swaps. And so the idea when you do a future off the exchange, you know, off the CME and give it up to the CME subject to the rules of the DCM, it's really for the clearing function more than for the execution or trading function. And adding in the context of the swaps market, it may be the right place to end up that eventually all trades that are done off a facility that are MAT be given up to a SEF in some capacity similar to the futures market. I think one of the differences is that you still don't have at the clearing house that is no longer vertically integrated, and accepting that trade guarantees -- this is kind of why we've added two new parties -- the pre-execution credit checks as well as a disconnect between the trading platforms and the clearing houses. I just think you have to keep that complexity in mind when comparing it to the futures area.

MR. COCCO: I think what's emerging is that there isn't just one type of package transaction. There are very many different types, and so it may be that the solution has to be tailored to each type of product rather than just to the idea of a package transaction. So you may have packages that consist of a MAT swap versus another MAT swap and there are some issues there. And those are different from situations where you have a Treasury against a MAT swap or a MAT swap versus a non-MAT swap. So I think each of those needs to be looked at differently.

The common thread is that you have a single price. So we call them packages but it's really one trade. And I think Citadel actually has some very good slides about how -- what that means in practice, a couple of examples, about what that really means. So the price differential of looking at each component versus looking at the package as a whole, as a net whole, is very different. And so that needs to be kept in mind because it's not just like taking one swap and adding it to the other. It's a totally different product because it is a package.

And so finally, that also affects in terms of the readiness level of the industry whether we are able to conduct pre-trade checks. And maybe we can talk about a timeline for that and for what packages is that even conceivable and for what packages, what types of packages, we need to think about alternative solutions.

MR. MCGONAGLE: And I think that gets -- a little bit gets back to Sayee's question to start, which is we were trying to articulate where the buckets are so that we have an understanding about, you know, MAT versus non-MAT products that come within CFTC jurisdiction, other related products, sort of where, you know, how much of the market are we able to integrate onto SEF as part of the obligations for the required transactions.

MR. SENFT: I agree with Alessandro, and I'm sure most of us would, that packages come in different shapes and sizes and degrees of difficulty for process. But I think it's very important -- Ananda, if I understand your statement correctly, you know, it's really -- or question -- what makes swaps different from futures? Why should they be any different? And I think the difference lies in the fundamental economic concept of why people do packages. The interesting thing about a package transaction is that in almost every case, the package has less risk than any of its legs individually. So as long as a market maker can be assured of being the executing broker on every leg, the transaction will be the same low risk transaction to the executing broker as it is to the client. But as soon as we're in a position, which is what today's MAT rules, you know, barring the delay, as long as we're in a position of not being able to be assured that we're the executing broker, we don't have the same risk as the customer anymore and we would have to price it differently. So in the interest of giving our client the best execution, we just want a structure that allows us to provide the price, knowing that we're the executing broker.

MR. O'CONNOR: And Ananda, just to add, I think your question was why can't the swap leg of a Treasury spread package go through the SEF?

And it can. It can go through the SEF. And that same party could go and buy a Treasury in the Treasury market at exactly the same time. But the problem there is not only one of credit check, but it's also one of cost because that person putting the package together that way pays a lot more bid offer. And I think that was picked up in the Citadel letter as well. And the bottom line is the person who is the provider for the swap price into the SEF is getting that on an outright basis whereas if he was giving the spread level, the bid offer is very much compressed. So it's cost and risk.

MR. DURKIN: Yes. I just wanted to clarify something. I mean, first of all, you know, we are clearing package transactions today at CME; right? So these transactions are being credit checked as individual components of these packages. That's happening today. I am wondering, based upon the dialogue today, and this is more a question that I'm positing to the Commission, it seems fundamental to the conversations that we're having today that, you know, under 1.73, is there a compliance obligation that the credit checking occur on these packages as packages on an order by order basis? Is that a compliance obligation separate and apart from the efficiencies of what we're trying to achieve here, I believe, which is, you know, the packages and getting that best price, the tightest bid ask spread, having the ability to identify that at a differential, as a unit price that can follow its way through into the clearing system so that you're able to break up those individual components, all of which have to have prices associated with them, is that what we're all kind of talking about here today? But, you know, is there a compliance obligation under 1.73 for packages executed on a SEF or a DCM to be credit checked on the order on an order by order basis?

MR. BARSOOM: Just building on both Dexter and Bryan's comments, so we've been doing mandatory clearing for quite some time now. People have been trading packages in the market during that time and being able to clear them. So I think it's important to distinguish, at least from my perspective, that this isn't a clearing problem as some suggested, but rather an execution problem, and particularly to Dexter's point, the execution requirement per the MAT to trade it either in an order book or an RFQ of two to three is what creates the risk that the legs are broken up and that you end up with one party who is potentially unhedged.

It seems to me that there's a paradigm here that we already have in the futures space that may be relevant to apply here which is if these packages are treated as a block, and therefore can be executed off-facility, but pursuant to the rules of a SEF, so they're not subject to being traded either at an RFQ of two to three or a central limit order book (CLOB), that that paradigm which works well in the futures space could potentially be one that we could look for here for some guidance. So if such packages were able to be executed, therefore, as a block and the relevant swap leg of it simply be reported to the SEF pursuant to the rules of a SEF, then it seems like if that paradigm works in other asset classes, that's something we ought to explore as working here.

MR. SRINIVASAN: I'm not sure I understand why you have the breakage risk if you do an RFQ of two or three for a package because the idea is you're doing an RFQ for a spread. Let's say a simple calendar spread. Let's say I want to do a calendar spread. So where does the leg risk come?

MR. BARSOOM: Let me give you a credit example. So I've traded an index --

MR. SRINIVASAN: So it's a credit thing; right? That one leg -- so it's sort of --

MR. BARSOOM: No, CDS. Sorry. Let me be clear. A CDS example when I say credit. So if I traded an option with a delta hedge of the index, right, the index is a permitted transaction. It doesn't need to be sent to the SEF, an RFQ doesn't need to be transacted on the SEF. So if I do an RFQ to three on the index piece but I've traded the option with Dexter, it's kind of, somewhat of a nonsensical RFQ to just send out an RFQ for an index leg because the price on the index leg is going to come back to me not making much sense because I've traded the option and the index as one price.

And I don't think it's the Commission's desire then to force these permitted transactions to be -- I think that's beyond the mandate of the law -- to say, therefore, then a package, meaning the option now must be executed via multiple RFQ. So that's why, in our view, the paradigm of having to trade this in a CLOB or a paradigm of having to trade this with a multiple RFQ doesn't work. It doesn't work, and exposes them, at least one party to unhedged risk.

MR. FRIEDMAN: I think it's important though to distinguish -- I think Peter is talking about an example where one leg is on the execution -- we'll call it the electronic execution venue -- and one leg is off, but it's being traded as a package. We offer packages where you can trade all the legs of the package electronically, and so I think in the cases where that is all that's offered on the SEF, I don't think you have an execution issue. And I think that's where you get back to what Nick raised, which is the bookend issue of how it's getting pre-trade credit checked and how it's getting cleared.

And Ananda, I think in answer to your prior question, I don't think that's just a communication issue; I think that's an issue of how FCMs are assessing the risk. So are they assessing each leg versus assessing the package? And I think that's got implications to the consumption of the credit that they're going to allow for on a particular trade. And then separately, as Peter pointed out, the clearing houses are clearing those as legs and not as a package. And so I don't think it's just a communication issue; it's actually how are they consuming the risk on the front end? On the back end? And so I think for products where -- or packages that are already being offered electronically with all legs being offered on the execution venue, it's not an issue of execution. I think it's more about the issues around the bookends.

MR. COCCO: I think it would be helpful to have a very simple example, and if this is too simple stop me. But let's say I have a client and the credit limit is 100, and they've traded so they utilize 70 of the credit limit. They now want to trade a package. Each individual leg would carry an initial margin of 20 -- 20 each. So if I put through each leg separately as if it was not a package, the margin required would be 40. So they would be over the limit. They would be 110. So the trade would be decayed, and we would run into the problems that Peter was highlighting, the fact that you may end up with one leg of the trade in place and the other one void ab initio. So you would end up with an unhedged position which is a risky situation that we don't want. If you --

MR. SRINIVASAN: I get your point. So the issue is we've been looking at -- the data we have is for the futures, what we get from DCMs, and the data we get from the DCMs has a flag for a spread trade. We still are unable to identify the components of a particular spread but at least from the data we can see -- actually, on DCMs, which have been executed through spreads. And what we see is that Eurodollar futures and Treasuries are sort of the closest to the IRS market we're talking about here. Over 50 percent of Eurodollar futures transactions, and even options is a much bigger percentage, its spreads are not happening electronic. It's not even on the pit. And our presumption is that those transactions are supposed to pre-trade credit checks; right?

So we understand the issues. The execution risk you have, the leg risk you have. And sort of we go further into the work that has been done among the ISVs, the FCMs, and the DCOs, and others, there is a lot of technology available now to do pre-trade credit checks. And even on things like user-defined spreads; right? So the question that we keep asking the industry is that it's there. The plumbing is in place and it boils down, and based on the discussion that happened the other day on the TAC meeting was that it comes down to whether FPML can handle packages or not.

I think all this is fine, but at the end of the day that's where it is. So the question is when will it be ready, I guess.

MR. COCCO: I think it would be very helpful to have a very clear understanding of for each type of package, you know, each subgroup, when do we expect to be able to have pre-trade checks, not for each individual leg but for the unit as a whole.

MR. ZIKAS: This is Tom Zikas from State Street

MR. SRINIVASAN: So we're talking about data -- we are sort of talking about data. The other issue -- the other issue which we see, the other sort of interesting market that we see in the DCM world is single stock futures. So I'm not sure if folks are aware, but if you look at OneChicago, it uses a different clearinghouse, the option clearing operation. There is a platform for EFPs. And what is EFP'd? Single stock futures and the stock. And the presumption is that it's all going to FCMs and they're being cleared. So there are repeated credit checks even for single stock futures where one leg is a futures contract -- those are securities futures -- and the other leg is a stock. So the issue that keeps coming up, so I'm saying that that is a marketplace where these things are being done today and there is some decent volume happening. So the question is how is the market handling it? And why don't we just replicate the euro market?

MR. RADHAKRISHNAN: Let me answer the question on the obligation under 1.73. The obligation falls on the -- if you are a clearing FCM and you are a clearing member, it presumes then that you are only required to do so if what you're clearing are futures and swaps; right?

However, picking up on Sayee's point, in theory, if a platform were to offer the execution of a package as a package, right, then you could, in theory, do your pre- execution check as a package, right, and then we're not suggesting that the non-swap, non-futures component of that package has to be cleared, right, because it's not our jurisdiction. So let's say it's a cash Treasury. But -- and I'm not even sure whether cash Treasuries have to be cleared. I think a lot of people do clear cash Treasuries. So you do the credit check and then you send the futures swaps leg to be cleared and you do whatever you want to do with the trade.

So it seems to me it's an issue of whether a platform can offer this package for execution. Now, licensing issues aside, right, but that's the question -- that's the issue; right?

MR. CAWLEY: So, let me tell you, they do and, you know, Javelin does and Javelin currently has dealers streaming prices in spreads versus Treasuries today. But we're not unique, and I'm not here to market Javelin. We're just, frankly, not unique. I think you hit a salient point there, and I'm not a programmer, but the question is with regard to swap versus swap transactions, are there the correct tag values in FPML or FXML or whatever you choose to use? I believe there is because we are not putting men on the moon here with package transactions. They've been around for a long time. And so whether it be FPML or FX, there are the appropriate tags and values to accommodate and flag trades. But I think what Dexter and Alexander said earlier I agree with, which is you can't take all package transactions and throw them in to the same heap; right? They're different. And I think with swaps versus Treasuries there's categorically no issue with clearing. And in our opinion, to mess with that now and not to require would be to almost upset the current market structure.

That said, with swaps versus swaps, yes, it would be nice. I think as you go down that list up there on the screen, it starts to become a little bit more challenging. Invoice spreads to be sure. Mortgage product.

Let's talk about invoice spreads for a second. You can't trade a future on an EFRP basis anymore against a swap that's been MATed. I don't know how you're going to solve for that, frankly. I don't know how 90 days is going to help. It's not really a time issue; I think it's really an exchange rule issue. But that needs to be addressed.

But I do think what Dexter and Alessandro said is perfectly correct, which is you scale it out. And what's the appropriate amount of time? Is it 90 days? In certain instances it might be. Is it zero days? In certain instances I think it is. And is it warranted that it be nine months in other instances? Yes. I actually do believe that that would be the case as you go down that list.

But certainly, the code is there for packages. This is nothing new to the securities and the trading markets. Plainly, it isn't. You know, and you have to be wary and mindful of the disruption you might cause as well as you start to give exemptive relief.

MS. RAFI: I would actually challenge the assertion actually that the code is currently there for packages. From an FCM perspective, the way we currently process package trades is on a leg by leg basis because we have no ability to identify the components of a package as being part of an overall package. And because we're able to do that on a post-trade basis, it's -- frankly, it's a bit clunky but it works.

You know, so for instance, if a client is sending in trades leg by leg, we'll process them. In some cases they'll breach credit limits. They'll get rejected. But they can be resubmitted and then we can clear them. In the absence of having that package identifier, once you move to a pre-trade credit check world, it gets much more complicated because the client is no longer able to execute until that package is limit checked in totality, which means from a risk point of view it's very challenging for us because in order to facilitate that in the absence of having this package tagging, we would have to significantly increase client credit limits in order to make sure that the individual legs pass the credit check which exposes us to, you know, undesirable risk relative to what the client's actual trading activity is.

I think, you know, as people have been discussing, this is a timing issue as opposed to an overall, you know, unsolvable issue, and there's a significant body of work to create those tags in FPML and FX that we can identify, but the facility does not exist right now and in a SEF pre- trade credit-checking world, we think it will be significantly more challenging than in the current post- execution clearing workflow.

MR. ZIKAS: This is Tom Zikas from State Street SwapEx.

I just wanted to offer some words from a purely technology perspective, and maybe divorce from the specifics of a particular package. If you're operating a SEF, and I'm really contemplating the matching, the actual matching event, if you're operating a SEF and you have multiple legs, you have to consider the super set of matching criteria as part of that package. So if you have leg A that happens to -- let's use an extreme example -- is an SEC Treasury security, you know, that clears through the Fixed Income Clearing Corp. (FICC) and you have a swap that is a SEF- mandated, CFTC DCO-SDR process following leg, you need to appreciate the super set of matching criteria.

So before you effect a match to retain the integrity of the certainty of execution, you have to have the logic built in so you can consider, you know, can I match this leg and this leg? Is there credit available? Is the participant eligible to trade both legs? Does the participant have the ability to affect the processing of that transaction?

So if you consider that super set and then you have participants that are willing to provide the liquidity for that relative value transaction or basically the difference between those two, then you can actually go ahead and affect the match. So long as you have that criteria built into the technology, the package should go through smoothly, seamlessly, with straight through processing.

Now, there are always pinch points, and I think the credit pinch point is a valid question. So how credit is administered, again, depends on how the SEF sets themselves up. So if credit is administered on a sequential basis where each piece of the swap is considered sequentially, you could run into an issue where the package is no longer valid for matching.

If you have the ability in your SEF to take a limit and take a macro view of that limit for that customer and apply that limit as communicated to you from a hub or directly from an FCM, you can enforce that limit. Now, the true pinch point comes down to I think kind of the main issue where the DCO itself after the fact may find an issue with the credit availability. So because the FCM's credit availability is not disclosed to the SEF, that can't be built into the logic of that.

So I think in that circumstance, if you

have a SEF-centric package, I think the guidance is clear. The package is void ab initio. If you have a leg that's outside the SEF and inside the SEF, different jurisdictions, different rule sets, that other leg becomes what's called a hanging leg, and nobody around this table would be unfamiliar with hanging leg risk. Now, because both parties are similarly disadvantaged in that break, they may -- if the off-SEF rules allow for trade breakage, they may be amenable to break the train. But I think in general, the package from a purely technology perspective, so long as the superset of criteria can be known and built into the SEF, I think the package can actually work very smoothly.

From our perspective, particularly about swap spreads, we have the ability to deliver the Treasury transaction such that it's cleared and delivered through the FICC, either directly through membership or via essentially a clearing broker that represents that transaction into the FICC. So I think that process should work very smoothly.

There's other pinch points that break

from historic tradition, and I think they're worth mentioning. So for traditional buy side entities, oftentimes in a package transaction, particularly where you have a leg in the Treasury security, the way we've set our package, swap trade transaction capability is the Treasury trades at the market, but in historical buy side customers are often afforded the option to select where they would like to peg that level. I think that flexibility gets removed when you look at life purely from an electronic perspective.

And then I think just queuing off of the one other case that was raised at the TAC is when you look at transactions that are not these relative value transactions but actually maintenance transactions for unwinding positions, I think in that unwind situation, which I think is less relevant for this MAT discussion because it probably doesn't get drawn into it but it could, I think the sequential credit assessment in that circumstance, particularly where you may have a package of winds or a basket of unwinds which may have constituent parts on CME and LCH, for example, you know, you could run into a situation where credit availability gets disrupted where if every CME-cleared leg is long and every LCH leg is short and you run out of credit availability. But I think at its purest sense, application of technology, so long as the rule set can be understood and programmed into the SEF, everything should run smoothly and streamlined, but we also acknowledge that not everybody is tackling the issues the same way. Not everybody has the technical ability to do things in perhaps the manner that I laid out today. So when you talk about the time relief, I think the three month time relief is absolutely necessary for folks to be able to perhaps adjust.

MS. RAFI: From an FCM perspective, I'd like to just speak to the point you raised about credit checks potentially being able to be done on the SEF for a package of the SEF itself, that technology.

You know, from our perspective that raises a couple of issues. First of all, that would require us to push credit limits to the SEFs as opposed to being paying for credit limits, which would result in a bifurcation of our clients credit limits across multiple different venues, potentially impeding their ability to trade across venues, and potentially, you know, disadvantaging some of the smaller SEFs because if we have to push limits for clients, they would probably opt to do so primarily at some of the larger venues.

Secondly, that then puts a dependency on the FCM to be comfortable with the SEF's credit limit check and functionality, which can vary quite dramatically in terms of sophistication across platforms. From our point of view, we have extremely sophisticated credit checking methodologies at Citi, and we find them to be much more robust(inaudible) quite frankly than some of the more simplistic measures that might be used at execution venues. So we would be very uncomfortable basically outsourcing our limit check in that respect across any range of execution venues.

MR. NGUYEN: Let me just ask a quick question. So my understanding is some of the SEFs here are offering certain types of packages -- curves, butterflies; correct?

SPEAKER: That's correct.

MR. NGUYEN: I hear discussion about a lot of these issues that these operational technological issues that are going on right now. I mean, is there any anecdotal -- are there any anecdotes you can share of these issues actually coming to fruition and actually having occurred, whether it's certain clients bumping up against exceeding credit limits? I mean, obviously some of you guys are listing these transactions. I assume is there a volume for these transactions?

MR. HIRANI: So let me offer an example. So we heard in the marketplace this week that one of the SEFs --

MR. NGUYEN: Can you speak up a little bit?

MR. HIRANI: Can you hear me now?

SPEAKER: A little closer. Closer.

MS. MARKOWITZ: They want you to use the mike.

MR. HIRANI: Okay. Can you hear me now?

SPEAKER: Yes.

MR. HIRANI: Okay, thank you. You know, by way of sharing what's going on, so you're right, packages are happening and they've always happened. The technology exists to make them happen, and I think some of the points that have been raised is everybody can claim on their own that they have the technology to make all this happen, but the issues come in when you have to interact or interface with other parties in the ecosystem. Okay? So I don't think anyone is claiming that technology doesn't exist on a standalone basis, but I think at least our perspective is that it's not interconnected in the ecosystem in order to make the compliance requirements, you know, to meet the compliance requirements, to meet the clearing requirements, again, to look at the packages as a whole.

Just a simple example of what happened this week is you had one of the larger SEFs that lost connectivity to one of the larger CCPs. So you take an example. You have 100 line items and that SEF sends the first line item over on the message queue. And the first line item is pay fixed for a trillion dollars for 30 years, and then the remaining 99 line items don't go over because there's no intelligence or enrichment on any of the line items that convey to the receiving party, i.e., in this cases, the CCP, that don't process these transactions until all 100 of them have been received.

So nobody is saying you cannot execute them, but I think the assertion is that -- and there was a conversation about the tags. There's been a lot of good work. I think a quarter of this room is involved collaboratively to come up with an ID protocol system so you can tag the package as a whole, to enrich the package with intelligence so that the receiver of that information has with them what the total details of the package are.

So say your question was how long is it going to take? There's a lot of folks in this room --

MR. MCGONAGLE: Okay. So why don't we take a break? We'll have them restart the systems here and we're trying to figure out the sound once and for all. Thank you.

(Recess)

MR. MCGONAGLE: Okay. Let's get started. Okay, great. So a couple of preliminary points.

So mike management, we've rebooted the system so hopefully that's taken care of. We'll be mindful -- Ananda's experience from other panels and from Monday, if folks want to talk, if they put their nametag up, then we'll have a sense. Of course, I can't read any of the nametags so I won't know who actually the people are, but we'll figure that out.

Chris Ferreri from ICAP is on the line.

MR. FERRERI: Yes, I am. Can you hear me?

MR. MCGONAGLE: Yes, you're very loud and clear. So some of the things that we were thinking about is we'll go back -- right before I interrupted Sunil. So we'll start with Sunil. There were some comments just during the break about why don't we just go down the list that is at the back of my head and see, you know, questions, concerns, observations. Like, are we live now? Are we live within 90 days? If not, why not? I mean, we do want to get a little granular as it relates to particular classes so we can get a sense of the challenges. I appreciated the back and forth. This morning has sort of helped get our feet wet in the issues, so that's all good. But after Sunil I will turn to Chris just because he's on the phone and to the extent he was able to hear anything this morning and has some comments, we'll give him the opportunity to do that.

So let me turn it over to Sunil and I'll also have Nhan go back to moderating.

MR. HIRANI: Thanks. Thanks, Vince. So I was explaining that -- and I'm trying to answer two of Sayee's questions -- there is -- I think we heard in the previous discussion all the problems and why it can't be done, and I think it would be constructive to talk about what are the solutions. And I think it was articulated by many in the morning the lack of a uniform ID. I mentioned in between the break that some of the challenges and issues that we're having with simple trades, you know, I think we have an opportunity to address them proactively to make sure that the packages have the appropriate ID, have the appropriate communication protocols so that we can discuss them and communicate in the ecosystem consistently.

So Sayee's question was what's the date? So this working group, which by the way is not meant to be exclusive. SEFs have been participating,FCMs, as well as both CCPS -- both CME and LCH on the clearing side, as well as the credit hubs. So the idea is to get those folks to adopt the protocol and I sense some of the frustration on behalf of the staff, and I would make a proposal that people -- we're happy to publish that protocol as a group, and people can adopt it. So just to send you a message that people are very serious about adopting the protocols.

In addition to that site, we've had two representatives, one of whom has liaised with FPML and the other person has liaised with FX to make sure that the next versions of those protocols adopt swaps. And I disagree with -- I forget who made the comment earlier to say those languages currently support packages; they do not. I wish they did. They don't. And we have tried to look at what's there. It just isn't there. And the protocols that we have published, we exposed them to both of the industry groups, and at least from FPML, they've given us a date of June/July of when they're going to incorporate them into the next version of FPML, which is 5.7; okay? I don't have a status for you on FX, but this group meets regularly every Friday mornings at 9:00 a.m. And I want to state again it is not meant to be exclusive. Our protocols are meant to be public, and we want everybody in the world to adopt them so that when we talk about packages and communicate them, so when we have the next roundtable site, the SDR data will say you had 300 line items but guess what? It was zero risk and the reason you know that it's zero risk is because it was tagged and it's completely transparent.

So that's what's going on as far as a solution is concerned, and I agree with you, Vince. I think we should go down the list so we can have a tighter dialogue.

MR. NGUYEN: Okay, that's fine. Why don't we start down this list and as we go through them -- oh, sorry.

Chris?

MR. FERRERI: Yes.

MR. NGUYEN: Chris, are you with us?

MR. FERRERI: I am. I'm just trying to whisper so I don't bother anybody over there. Can you guys hear me okay?

MR. NGUYEN: Perfect.

MR. FERRERI: My only comment, the dialogue, the comments issue was going on before. The one thing that I think that really needs to be kept in mind more than anything else is that this isn't just a single connection between an execution venue and a clearing house. There's a lot of other components and Sunil I think raised a very good point about this is not a closed group; it's an open group trying to come to a solution. There are clearly many issues that have to be dealt with. The extra time I think is all the industry was looking for. So I do appreciate that and I wanted to make that clear to the Commission. The time will help, but none of us feel this is an unsurmountable problem. It's just a problem that needs to be agreed on a solution and we'll get there. And I think that's just the point. I think 90 days is close to being right. Maybe it's 120, but I don't think it's much more than that.

So with that I will go back on mute. And thank you. And I appreciate the accommodation.

MR. BARSOOM: So one thought maybe to help structure the discussion because while we can go through lots of examples, I think we need to ask, what are we trying to solve for? And perhaps one way that I think about this is if we break up the problem into kind of three different types of packages, one set is our packages that consist of all legs which are MAT. The second set of packages are ones where one leg is subject to MAT and all the other legs are under the CFTC's jurisdiction so they're CFTC swaps. And then the third set are where one leg is subject to a MAT and one of the legs are not under the CFTC's jurisdiction. And then for each of those things ask the question, well, what is the objective? What's the policy objective? And what are the requirements we're trying to impose on each of those things?

And then I think if we do that we can get to a more nuanced answer as to what it is we're trying to solve for. And I would offer up that that might be a productive way then of answering the questions of, okay, what is the timeline? Because then we'll know what is "it"? What is the state of the world that we're trying to reach in each of those three different use cases?

MR. MCGONAGLE: So talking about -- this is sort of in those buckets, you know, sort of byproduct, is there any concern about whether -- or question about whether we should be thinking about this by participant? Like, should we be concerned about who the participants are in these markets?

MR. BARSOOM: I don't -- you know, I would offer from ICE's perspective, no.

MR. COCCO: From JPMorgan, we thought of -- oh, sorry, go ahead.

MR. HORKAN: I would say that actually might make it more complicated to implement technology.

MR. COCCO: We think of it in terms --

MR. HORKAN: -- build the protocol for

the execution of clearing and then who you're changing it for, bifurcating it again between types of clients. It's just another challenge. And I think to Sunil's point earlier, these are achievable problems to overcome and it's about the messaging and the protocol and it's more about timing so that we implement it efficiently, safely for all participants in the ecosystem.

MR. COCCO: I would agree with that. I think it is about the message and the protocol and the type of transaction rather than the type of counterparty. So just to give some specific examples for credit derivative trades, we could think of a cross index, so CDX IG versus CDX high yield is an example of something that's relatively liquid that could be, once the protocols are solved, could be eligible for going onto MAT as a package.

An example of something that is currently illiquid and would require more time would be, for instance, a swaption with a delta. So the delta itself would be a vanilla trade that would be subject to MAT but looked at as a package would be an illiquid package that would require more time than the other type of transaction that I quoted.

MR. BARSOOM: But the solution also may be different. I mean, I would offer that swaption with a delta, it would be -- that the requirement to have to trade that package as if it was a required transaction and therefore subject to be traded on a CLOB or subject to an RFQ to three is not what I think ought to be the outcome for that type of -- for that type of package transaction. Whereas, perhaps for the former, where both legs are subject to a MAT, I think then it's more a question of time as to, okay, you know, can those be traded in a CLOB or subject to RFQ? Probably, yes. But that may -- there's a much shorter timeframe for that.

So the answers I think in each of those buckets the way we view it are going to be very different answers.

MR. COCCO: So maybe the third bucket would be -- so I agree with you, Peter. The third bucket might be something that looks more like something modeled on EFRPs where you would execute it off the SEF but following the SEF principles and the SEF rules.

MR. MCGONAGLE: So let's hold on that point for a minute because I think there's going to be a lot of discussion about whether or how, you know, our focus initially is required transactions occur on SEF and there's two -- or DCM, and there's two methods on SEF for execution of a required transaction. And so if we get into the rabbit hole about an exception, we'll have some time to talk about that, but let's deal where things should work.

Are there any questions or comments about the buckets -- and I'm using buckets in many different ways today. I get that. You know, initially both MAT products, if the package involves products that are all subject to the MAT, is sort of one area. The next is one of the components is a MAT product and the other is a jurisdictional product for SEF. And then the third is one is a MAT product and the other component is off-SEF or non-jursidictional. Yeah?

MR. LILLVIS: One thing I would add to that characterization of the first bucket where each leg is MAT, I think in the current environment where everything that is MAT is spot starting and benchmark and then we're thinking about that first bucket being packages that are entirely made up of spot starting and benchmark, I think it's a good bucket. We need to though be cognizant of the fact that as you increase what is MAT on an outright basis to include forward starting trades and other points on the curve, solving, you know, the technology and the straight through processing challenges for making those MAT on an outright basis, it may not be as simple to then offer packages of nonstandard benchmark forward starting swaps. So you may need to kind of think about that in the context of expanding what is MAT, think through whether there are any particular all- MAT packages at that point in time that because they're forward starting the package itself should still somehow be subject of some relief because the forward starting nature or the off -- the non-benchmark components make it more, you know, the protocol hasn't been developed for that particular -- you know, I think folks on the buy side in the Managed

Funds Association spend a lot of time making sure that they have messaging to take messaging, from historically the affirmation platforms, immediately get trades under their books and records, and every time we add a new wrinkle to this there's a lot of technological work that happens and a lot of interim periods where there's manual booking and things that we want to avoid as an industry that --

MR. NGUYEN: So give us an example. Let's use a very straightforward example and we can maybe get into these products on the list. So a swap occurred. Let's take two benchmarks, a five versus a seven, both MATed swaps. The impression, it seems to be fair. Solution, it's fairly straightforward, coming in the near future.

So let's, you know, take the example now where it's a five versus, you know, five versus a 13, for example, where the other leg is not a benchmark. What are the sort of issues that distinguish the first example where it's fairly straightforward, they're both benchmark MATs, and the second example where, you know, you have a leg that's not subject to trade execution? I mean, the trading requirement still applies, I mean, to both legs in the second example. So maybe if you could just elaborate what the problems are.

MR. LILLVIS: I mean, I think the example might, you know, be where you're doing packages where one leg is forward starting to get counted for like the repo being locked in on a particular bond where you have mismatches and forward starting rates within the package for idiosyncratic trading reasons that I understand are real, that are not, you know, imaginary. And that all of the dropdowns necessary -- one, the SEF would have to then accommodate the ability to have all of these different settings, and then everyone would then have to have the ability to process the risk on an aggregate basis for these unique, you know, idiosyncratic, for some reason I'm trading 45 days forward starting. Has that been coded up for the entire straight through process on a package basis versus on an outright basis?

MS. STRANG: So it's not a clearing

issue? So to your point, if we can solve the issue of linking the trades for the pre-trade credit check on the clearing side in whatever timeframe that that is, whether it's six months or whatever we hear in terms of the group working on it, if that solves it, then that solves it for the package you've given. The issue will be on the execution side to the extent that SEFs can handle the quoting and processing of that trade specifically.

MR. NGUYEN: Well, can we ask the SEFs then? My understanding is the curves and butterflies are listed for trading now. I mean, is this -- are your systems not coded?

MR. SRINIVASAN: Actually, the other way to look at it is just the specific issue that --

MR. MCGONAGLE: Sayee, we had the SEFs on the hook there.

MR. SRINIVASAN: Sorry. No, no. I just want to clarify. No, no. The issue is to be more specific with the question; right? Which is a spot starting five-year swap is MATed now; right? And let's assume that a month from today a forward starting five-year swap is MATed. So at that point, how do things work on the SEF side in terms of allowing packages involving such swaps?

MR. CAWLEY: So let me talk from Javelin's perspective.

So currently today, we have curves and flies. We send them down as a function of what -- if it's ping or push we send them down in a sequential manner to the relevant FCM. Does that answer your question?

MR. FRIEDMAN: I think what you're asking is whether we can offer the curves and flies sort of along the curve, and the answer is yes. There may be some nuances to some of the forward starting dates and some of the bespoke effective dates, but generally speaking, you know, for curves and flies we can offer the entire curve but then it's just a question of whether, again, the credit check is being done at the granular level of each leg versus are they ready to credit check that as a package and then ultimately clear it in the same way.

MR. HIRANI: So in the package, in the

package protocol working group, we've discussed this issue at length, and from a technology, you know, ID protocol perspective, whether it's a five-year instrument or a seven- year instrument, or whether it's a MAT or not MAT, the important thing is that it's clearable at CME or LCH and it can be expressed in the language that the group has come up with; right?

So the bucketing that we've come up with, we had multi-phase implementation periods and we've actually come up with two phases. Phase one is cleared/cleared. And then you go into the complexity of cleared/uncleared. And then you get into instruments that are regulated in this building with instruments that are not regulated in this building. So that's the way to think about it. And I was sharing with Nancy before, I think a lot of people in this room are aware of the operational issues that this industry is experiencing today. And that's just processing single line items one at a time. And, you know, my strong recommendation would be to make sure the infrastructure worked, the language that has been come up with, accommodates a gradual expansion once everybody is comfortable, and let's solve the problem for cleared/cleared instruments first and then the language allows a systematic expansion to include cleared/uncleared, cleared in non-jurisdictional items.

MR. HARRINGTON: I am just going to add really quickly, so from a broken date forward start functionality that we have had certainly since October 2nd and well before that as well, I think a lot of this discussion really does focus back on what the pre-trade credit check capability is. At the end of the day, for all these trades you do have to do, currently, we actually support three separate models of reaching credit facilities are ultimately reaching FCMs where we'll go direct, where we allow for FCMs to push to us, and therefore, we do have the ability to put a swap spread, to put a butterfly, to put different levels out there as far as what FCM limit they're willing to apply. We also obviously go through the credit checking facilities, and I think that's sort of where this will ultimately be resolved. I think the three months, and obviously, you know, you've got Nick and Jeff here as well who could talk about what they think they can accomplish over that time to, you know, instead of sending you a two and then a three and then a five and you saying, "Yes, yes, yes," for me to send you one block that has it and then for your system to respond back and say, "I know that block. I get the risk. Yes, I'm willing to take the trade." So I think that there is work on our side to send it to them in that format. We have it in that format. We're breaking it down. And then for the credit checking facilities to come back and say, "Yes, I'm willing to accept that."

So like I said, from a timing standpoint, I think that the 90 days, you know, and like Chris Ferreri said, maybe it's 120, that's probably right. But the ability to execute the trade is certainly there.

MR. SOLINGER: If I can weigh in and perhaps frame it. It is broader than the pre-trade credit checks. If you can indulge me for a moment I'll kind of lay out a few layers that I think the Commission should look toward in terms of industry readiness.

So, one is the credit checking facilities in terms of what are the standard messaging? There is an effort with that FPML. That's one element of it. The other element actually is the support of the risk methodologies used by the FCM community in terms of netting behavior of them. And that's something we feel is relatively on a similar path but they are two independent issues. Different FCMs look at evaluating the risk of packaged trades in different frameworks, so we began our effort on both the technical front as well as the risk framework front more than a year ago, and you can't underestimate that there are both elements.

So how one FCM looks at measuring the risk of a package of swaps is different than others. Some look at the net initial margin requirement plus the exposure along points of the curve. If you're a receiver in a three-year bucket and a payer in a 10-year, some are worried about when the three-year basically comes to maturity, then you only have the 10-year left. So some actually look at not just the net risk but also risk of components. So we had to build quite a bit of capability to support -- to responsibly support clearing certainty on transactions in a package format, and we're very close to the finish line of building that for the FCMs who use us.

The messaging level is actually relatively simpler pre-trade, which I think is why you hear from SEFS a little bit, hey, they're bristling to come offer it sooner rather than later in some cases. It's somewhat simpler pre-trade than it is SEF to DCO and DCO to FCM. Everything that we receive SEF to credit check are in the name of a client, typically in the name of a handful of FCMs, and that messaging had analogies in existing FPML messaging. Jamie, to your point, I think you talked about some of this messaging being supported already.

So on the SEF to credit checking standpoint, there were messages that were used in other aspects of FPML and FX for strategy trades and things which we've begun to use as a draft specification in order to be prepared ahead of time. Those are not sufficient for the SEF to DCO messaging or the DCO to FCM messaging. So while as a trading venture you're like, hey, I can link trades today. You know, I can have a single order ID across multiple trades or a customer strategy ID, those do exist. Trades can be linked in a rudimentary way that is sufficient for my purposes for credit checking with what we're going to initially take out, but it is not the enhancements to the confirmation elements of FPML which support the full range of use cases for SEF to DCO clearing messaging, including clients who pre-trade allocate. Clients who bunched order clear and then post clearing allocate. Then all the traffic to the FCI.

So there really are significant issues that we have to address in FPML. I think they're all on the table and being worked on. One of the reasons why I think people have been a little slow to commit to a more aggressive data and FPML readiness is it interacts with what the execution mandate looks like for packages. So if packages are allowed to be arranged single counterparty effectively that simplifies what goes to the DCO, if you end up with multi counterparty packages that are all linked with pre-trade allocations, you know, I can define for you a corner case which isn't supported in the clearing models at MECCP and isn't supported in the messaging. And so if we -- there will be interactions execution mandate on how these have to be put on SEF or how they can be coordinated on and off SEF, which could still have further impact to the SEF to DCO messaging.

I think we will be prepared for SEF to FCM or SEF to us based on draft specifications in the April to May timeframe, but that shouldn't be viewed as the only element required to get all the problems solved and have things cleared under a SEF mandate.

MR. NGUYEN: Okay. So let's get back to the list here. So the way, you know, so when we look at them, we look at curves, butterflies, unwind offset packages. I mean, these are all, you know, packaged transactions, you know, exclusively consisting of component leg -- swap component legs. Are there any other issues? Because we want to kind of go through the list and, you know, as some of the panelists have said, some of the other packages on this list get more nuanced. So I want to make sure there's enough time to discuss them.

MR. MARON: The other issue would be, in looking at the number of legs that are involved in the process. So if we start with the simplest on the swap curve basis and we apply Peter's suggestion of looking at MAT -- MAT versus MAT, unMAT versus MAT and go through that, when we get to the unwinds offset packages and we've got 100, 200, 300 legs involved in that process, the layer of complexity grows significantly, both in terms of the pre-trade check as well as processing and sending it down to clearing. It may well be, as Jamie mentioned earlier, that if he does something like a butterfly, party A wants to do twos, fives, tens, but he's got party B doing twos, party C doing fives, party D doing tens. Each one has a different FCM. Party B may want to allocate, the other parties may not. All of that has got to be communicated in that one message when looking at it, none of which really exists right now to put it together. If you've only got two counterparties, both side by side, each with only one FCM, only one CCP, even on a butterfly, you've got different ways of looking at it, and we've got to look at both use cases to understand what we're talking about when we say packages. So different people are thinking about different ways of doing this.

So the simplest, easiest swap curve one by one, one counterparty to another, is pretty straightforward, but as you add that complexity, I think both pre-trade and post- trade needs to be looked at.

MR. CAWLEY: Let me just -- Jeff, if you're saying needing to be cleared here, what we're talking about when we say package it, right, we're talking specifically curves and butterflies. So swap versus swap. And yes, aren't you not solving for pre-trade? First of all, you're talking about two parties, essentially two counterparties. Let's be clear. We're not talking about introducing a third or a fourth counterparty on the trade. Notwithstanding allocations pre and post, otherwise you're not having a package; right? Because you'd have slippage risk or as Tom says, hanging risk.

MR. MARON: Are we going to have butterflies then where --

MR. CAWLEY: If I do it -- let me be clear. If I -- for example, we do fives, sevens, tens, and I'm doing 100,000 off the seven year in the belly and I'm doing the corresponding amount of fives and tens, that's me versus you; correct? Now, I go in and I do -- that's offered either RFQ or order book, whatever the mechanism in. It really doesn't matter. When we talked about the participants should we scale it out by participants, I think I agree with the earlier comment which was no, because that just complicates things further.

But let's go back to fives, sevens, tens, 100K in the belly. I'm selling to you; okay? Let's say I clear through Mariam at Citi. Okay? I send the three legs to Mariam. She has a ping relationship with Javelin and they're in sequential. Is that efficient? No. Is it a momentary spike in credit usage? For me, with my limited -- with Mariam? Yes. But as a momentary, for a few milliseconds, because Mariam has elected to use ping with Javelin; right? So the first leg comes in and throws it, as Alessandro says, and it could throw the entire order.

But we need to be very careful here. We're talking about throwing the entire order, not the trade. So it's not like one piece of that order gets through and you're left with one trade on and two trades off; right? Let's be very clear. If one leg of the order gets decayed, the order doesn't proceed in the food chain. What I mean by that is it doesn't move to RFQ and it doesn't move to order book; right? It dies. So let me just walk through it because people are throwing terms around interchangeably.

So when we're talking about the trade -- fives, sevens, tens -- I'm selling to you 100K in the belly. It's me versus you, whether it's anonymous, disclosed, whatever the hell it is. I check it. It's sequential. For now is that the most efficient way? No. But can it be tolerated? That's a decision between the customer and the customer's FCM. The FCM could turn around on a phone call and say, hey, I'll allow you to have a momentary flick in credit such that I know that, to use Alessandro's example, if I use 100 and I've already used 70 and I've got two legs -- let's say it's a curve trade -- and one is 20 each and the first one comes in and let's say it's -- I'm using 85 and the first leg comes in and throws it over the 100, what do I do there? Well, I could call Mariam and say, "You know what? You're going to see a momentary flick in credit for a millisecond but sequentially in milliseconds you're going to see the two corresponding trades. Is that acceptable for you?" "No, it's not." "Okay. Tell you what. I'm going to find a FCM who is going to permit me to do that because it's a momentary flick."

Now, there's all sorts of issues as we approach MAT. There's all sorts of issues with pre-trade and post- trade, and I've yet to hear a consensus on pre-trade allocations and post-trade allocations. But let's just proceed with the notion of pre-trade and post-trade. Let's say in that fives, sevens, tens you now have an entity that's executing on behalf of 10 subaccounts. Okay? Well, they can do a pre-trade allocation. Okay, so how does that work? Well, I think it kind of works the same, albeit inefficiently. It's still a sequential credit check. Yes, as I said in my earlier comment, I'm not a programmer but I do understand that there is FPML language out there that has been used. Has it been fully conformed to the swap marketplace? No. Should it be? Probably yes. So is 90 days enough time for us to do that? I don't know. That's what we're here to talk about.

Let's be very clear here though. On that trade today, it happens and it goes through. Is it the most efficient way? No.

MR. NGUYEN: James, one thing I would say --

MR. FERRERI: Can I speak to that just a moment, please?

MR. CAWLEY: Sure.

MR. FERRERI: Thank you, James. I think the one thing that we can't lose sight of the fact in that lengthy example that James just gave us, the very segment of the market that the law was intended to broaden this out to will be at some disadvantage here in a MAT process. So, the self-clearer or that process is going to happen much more smoothly; right? In essence, it's something that's (inaudible) to the 10-year switch. You have a 50/50 shot that you're going to send the risk increasing leg first that's going to be rejected. You have a one in two chance for that not self-clearer's order.

MR. MCGONAGLE: You're going in and out. Can you try it again?

MR. FERRARI: Is that a little better? What I'm suggesting is that the self-clearing members will have less of an issue with this than the newer entries into the market. And it's a concern that I have personally that given more time to get these FPML messages to be agreed upon, to get the process in place, the MAT determination is going to -- the MAT requirement will put those folks at a disadvantage. There's a one in two chance that a two-legged swap --

MR. NGUYEN: Chris, you're going in and out again. Can you readjust?

MR. FERRARI: I don't know what else to do. My apologies. I appreciate the accommodation.

MR. CAWLEY: Let me say this real quick. With regard -- Chris makes a very good point. We do have to be more mindful of what he just said actually, which is, you know, does this promote, is this easier for self-clearing members? Yes. So are non-self-clearing members going to be disadvantaged? It could be. So, you know, we need to address this and we need to address it in a very expedient way in terms of figuring it out. Is it inefficient? Yes. Is it acceptable to the marketplace? No.

MR. MCGONAGLE: So, and that resulted in folders going up on the right side of the table. So if we can start down at the far right and then just come forward.

MS. STRANG: Yes. I think it's important, and I think you bring up a great point, Chris, around the franchise. I sit in the middle of the rate sales business on one of our trading floors, and I've been with them through clearing and through external business conduct standards, and through real-time reporting. And the phase-in for clearing, you know, I think, you know, people opted in before they had to. It went quite smoothly. Strong business conduct standards, all those things. I'm frequently, you know, on the phone with clients and with our sales force.

And I will say the anxiety from our franchise leading up to the delay that was thankfully granted on Monday was quite interesting and it was really around I would say three things. One was around the curve trades there was a lot of concern from clients telling us that they spoke to their FCMS, they can't pre-trade credit check the package until nine months from now. How is that going to work for me? And so I think, obviously, we're all addressing those issues right now, but certainly it was raised several times.

The second issue that was also raised from this group, and maybe I'm jumping ahead to the next category now, was really around swaps -- MAT swaps versus sort of the non-jurisdictional products and on what would happen if the swap leg got voided and what the SEF would do with the Treasury or the other security. And so I think from a franchise perspective, the fact that all of these issues have nuances where dealers will have an easier time than clients is why we're here, is why this delay is needed.

So to earlier points, dealers trade swaps in the broker market, that's fine. We do it on SEF now. We'll keep doing it. But all these issues are really, you know, I think if we could continue to focus on kind of the more client-focused, FCM-related issues, I think that would be -- at least the franchise that we speak to would be very much in favor of.

MR. DENNE: I have a comment from the FCM perspective. I think Matthew touched on this earlier, that the challenge here is not just a messaging one; it's also a risk one. I think when we start talking about the first three buckets, there's a very big distinction between the curve trades, and the flies, and the unwinds and the offset packages. If for no other reason other than just the volume of legs in those transactions is also much greater.

Making very rapid computations around the risk on a particular leg of a transaction is rather straightforward and is a well-embedded process. When you're starting to talk about portfolio calculations that have to be done in the very, very short period of time precisely for the reasons he just touched on, it becomes more problematic. Now, I think the prerequisite of that is getting the messaging of the structure in place so that FCMs and market participants know how to respond to those messages, but the risk infrastructure and the speed of which and the velocity of which those calculations can be done will be critical for getting this prepared -- preparation on much larger packages than a curve trade of two legs or a fly trade with three.

I think the other issue too that needs to be supported into the discussion is basis risk. I think Mariam touched on it a little bit earlier. We do have multiple methods of performing that pre-trade credit check. And if it's a club with a push limit that may be using their own risk methodology that may be different from the LCH or the CME and how they would evaluate risk on that package or how Citi or Bank of America may do so from an FCM perspective, that requires a degree of due diligence and testing that has to be put in place before we can go live with this. Otherwise, I think there is a risk that the basis between how SEF, a CCP, and a FCM -- sorry, DCO I should say -- respond to the same package may be substantial.

MR. NGUYEN: Dexter, I know you've been patiently waiting.

MR. SENFT: Thanks. Just a few technical points. First of all, a few of us have observed that we're the ones forcing Chris to cut out because our mikes are turned on when he's trying to speak. So I think we can solve his problem.

The description of the MAT swaps was in every case described as a two swap transaction package. Let's just acknowledge that we can have, you know, N legs to the packages that are all MAT and try to solve for that.

Third, there's going to be a case that we need to figure out where part of the package is above block size for its bucket of maturity and the other leg or legs are not. So let's just agree, does that make the whole thing a block?

Does that not? Because it affects reporting and so forth.

As a sort of policy matter, I really do want to pile onto something that Sunil has brought up now multiple times. We've got technical standards emerging. What emerges may work for some of the people in the room but not everybody. As an industry, we need to rally around this standard and get ourselves to a place where, you know, we have the ability to do things using common methodologies across different parts of the infrastructure. And we would love to see the rules around package trades get developed in concert with what is available through technology standards.

MS. RAFI: I completely agree with what Dexter just said on having an industry solution. I think, you know, to say that package trades limit checking would work right now based on temporary increases in credit is -- it's a little -- it's a little misleading and it definitely disadvantages clients. The reason I say that is we do temporary increases in limits for clients who are putting in package trades that were executed voice, and we can do that because that gives us time to potentially reject trades, take them back in, you know, once we get that notification, but our clients, a lot of them who trade packages trade with a lot of velocity, and it's really not part of their trading practice to call FCMs ahead of time before they're able to take an opportunity of an advantage in the market to say, "Hey, can you increase my limits before you do that?"

So the solution for us would not be to do temporary increases in credit but rather to have to have a very high standing credit limit for that client which becomes, you know, much more problematic for us to implement from a franchise and a credit risk point of view.

MR. SOLINGER: And I think to further that point, your example of FCMs -- maybe some FCMs being comfortable with a brief blip over a credit limit, we're not aware of FCMs who have that comfort level if they can't distinguish an order that could independently execute from orders that would execute together. The example that you shared, we would have no way of knowing which of those orders that blipped the limit that you provided us were meant to be a part of a package of something else or were just a, you know, an order going into the order book on Javelin.

So that's what the standard is meant to address, that we would be able to discern that when we get a leg that might be vastly in excess of the limit, that we see, oh, it's part of a Javelin package, we hold the calc. We wait. We know how many additional legs are going to be coming because it's something on there. We can be open-ended in packages or allow open-ended ones to come in. We've built a lot into this in the working groups we've been a part of, but it's specifically to avoid the scenario that you describe which would be a race to the bottom where the risk- based limits are meaningless and no trades are rejected for FCM limits anymore.

MR. MCGONAGLE: So let me just put out a quick question on timing before we get a rebuttal, and I know Citadel is waiting.

So I've been hearing 90 days or, you know, May 15, maybe another 30 days or whatever.

I'm not -- at least at this table, I mean, people want to get going. Some people wanted to be going a lot sooner than 90 days, and I've heard that. On the other markets, where are we on timing of these solutions and implementation items that you've talked about this morning, like, so are people going to be pushing me on May 15 or not?

MR. BERGER: Anyway, I will get to the timing issue in a second. I just want to follow up with two other observations, one following on the back of what Mariam said.

You know, if we're planning to be active in the market for package transactions, I think we can easily go tell our FCM, you know, until there's a solution in place, just quintuple my credit limits. But if we understand there's probably a fixed amount of credit that the FCM committee is willing to extend to the market, me going and hogging a bunch of it comes at the cost of a lot of other market participants who we otherwise want to see in a liquid, vibrant market. So there are limitations to that as a stop gap solution, which we should probably bear in mind.

The second point that I think someone

mentioned, it occurred to me, there's also a potential disparate treatment here between people who can and do transact block size and those who don't. If you're commonly transacting in block size, you can take advantage of the pricing efficiencies that come with executing as a package, and if we don't accommodate that for participants who trade below block size, you potentially create a two-tiered market in a different way than now.

To get to the timing point, you know, we've been part of this group that's been working on the language protocols, and some of my colleagues have been active in the liaison with the FPML, our working group. What we've been told, which we find frustrating, is that the FPML released 5.7 is not due out until July, and while people can start building to it ahead of time, there is testing and pre-prod work that has to go into that. I would love everybody to, you know, collectively try to push that date forward so we can get things done sooner rather than later on that front, but that is -- the time constraint, one thing that's been presented with us that we have been told to live with but don't necessarily want to.

MR. NGUYEN: Jamie, you'll be the last comment on this and then we want to move on.

MR. CAWLEY: All right, fine. So I guess the question is how much time is needed? Is 90 days enough time to address? And actually, Dexter, you mentioned a very important point, which is what happens when you've got a block on one side and a nonblock on the other? You know, some policy guidance on that might make sense as well. But, you know, our frustration on our side is -- and I echo what Stephen just said, is you've got working groups, a FPML, we all want to work with the industry and adopt something that's universal for the industry. That's ultimately the most efficient, but is that on a 24-month window? Is that on a six-month window? Is it on a three-month window? I mean, what can we reasonably work towards where everybody wins?

MR. PULLEN: If I could jump in, Jamie, I might be able to add some color.

This is George. I'm from DMO. I was involved with the block rule and also all the other rules you guys all know.

By the way, with the block rule we did account for, the idea that there might be trades that had multiple legs. It's currently outlined. If one of the legs -- we have it under what's called composite reference price swaps. And if any one of the legs hits the size, then the whole package -- we're now calling packages here -- it was called something different then, but we keep on giving our names. Then the whole thing is traded that way. So that's how it's already addressed in the rule. So there wouldn't need to be a rule rewrite for that -- to account for it.

MR. HARRINGTON: Before we move on, just because there's a lot of people in the room that would care about this issue, and while we're talking about blocks, certainly at least for a minute, and especially with Ananda and Vince both here, we're obviously extremely close to the MAT on Monday. At least in Europe and then in the U.S. on Tuesday. One thing that seems like it's coming up where there's lack of clarity is what is really going to happen with voice trades;

right? And will there be some level of requirement for a pre-trade credit check on a voice trade? That's not fully clear to us at this point in time.

But then secondly, and almost more importantly, there seems to have been a move towards having RFQ to one when you're going to go block exempt, be allowed. However, we've heard concerns recently that if you're doing that trade on the SEF and you are doing block-exempt, are you doing RFQ to one. That's actually a SEF trade, and therefore, you couldn't do RFQ to one. You would actually have to do RFQ to two. And also, because you are on the SEF, that trade would then actually not have any reporting delay on it. So, like I said, I know this is a little off topic but I think everybody in the room would care dramatically about this. And like I said, we're coming on implementation very quickly.

MR. NGUYEN: Okay. Let's move down the list here. Swap spreads. If we could be -- sort of succinctly kind of give us a synopsis of what are the issues involved? I understand some of the SEFs have said --

MR. MCGONAGLE: Nancy wanted to chime in on the block.

MS. MARKOWITZ: Yeah. I saw your face, when though we didn't respond to that question.

If you look at the definition of a block trade, it's an off-exchange transaction. Okay, and so under that definition, you're right; a RFQ to one would be a non-exchange trade. It wouldn't be a block.

MR. HARRINGTON: Okay, that's great, but the facility where you're executing it, if the facility itself is a SEF, and under footnote 88, I mean, what was raised to us by the members of the Commission recently was that that trade itself, because it's being done on the SEF is a SEF trade.

MS. MARKOWITZ: Right. But it's not a block because it's not off-exchange.

MR. HARRINGTON: That's exactly the point. So how are you supposed to -- where are you supposed to execute that trade?

MS. MARKOWITZ: Which trade? The RFQ to one?

MR. HARRINGTON: So you're going to do -- so you're going to go block-exempt; right? So you're grossing up and you're doing, whatever 500 million and therefore IG21, so you're above the block-exempt rule.

MS. MARKOWITZ: Right.

MR. HARRINGTON: As you go to execute that trade, you go onto a -- you pick up the phone and you execute the trade; right? And then you're going to put that trade into some kind of system or SEF to submit it down for clearing and do the pre-trade credit check and all that.

MS. MARKOWITZ: Right.

MR. HARRINGTON: How is that going to happen?

MS. MARKOWITZ: I would assume it happens the same way that it does in the futures world, which is you do an off-exchange trade and you bring it on the system to go through clearing. I mean, I don't see the difference the way the futures are traded.

MR. HARRINGTON: Okay. So let me just -- here's what I think is going to actually happen; right? You're going to go onto -- for example, you're going to go onto Bloomberg and you're going to say, okay, I'm going to do a $500 million trade. The system is going to say, when you type in $500 million, it's going to say this is -- you're now above block, and therefore, I'll allow you to do a RFQ to one. You press on send. You may have even pre- negotiated the deal on the trade. You're putting it through. So you do the pre-trade credit check once you allocate and set up your accounts or whatnot. Then the trade goes through. The guy already told you he would trade with you at, whatever, 84-1/2. He says 84-1/2 you're done, and then the trade goes down to clearing. Is that the way you see it working and that's okay?

MS. MARKOWITZ: No, I don't.

MR. HARRINGTON: Well, because it's a MAT security, it has to be put through a SEF.

MR. BARSOOM: Yeah, but there are many facilities for reporting it to a SEF that doesn't require a RFQ to one, George. So a SEF can offer simply a block GUI screen or through an affirmation platform so that trade -- not order, but that trade is delivered to the SEF for the purposes of the SEF accepting it, generating a USI, and then submitting it into clearing.

MR. MCGONAGLE: We're going to pull it back. Conversation for the break.

MR. SOLINGER: Before we move onto spreads I just wanted to say --

MR. FERRERI: I have an idea for that, too.

MR. SOLINGER: I would recommend to the Commission that you look at one other element, which is also the timeline for DCO readiness to clear packages and convention around void ab initio, around the individual legs of the overall package, especially when you have clients who allocated that are part of it. So that is another element of the timeline for industry readiness that didn't get a lot of discussion and there weren't specific timelines raised here.

MR. HARRINGTON: I know we're going to move on from this but I think with footnote 88 we've got a real problem.

MR. NGUYEN: We hear you loud and clear. Okay. So let's go down the list. Swap spreads.

We understand that they're currently listed by some of the SEFs that are present. What are sort of the issues involved, going back on the question -- Vince's frame. So what are the timelines that we're looking at?

MR. BARSOOM: What we are trying to -- what are we trying to solve for? What is -- I still don't get what is the solution to be able to answer the timeframe on that because if we're talking about, you know, back to the division that I suggested, so that would fall into the category of a MAT transaction with a non-CFTC transaction. I would submit that the answer for that, or one answer for that is that does not need to be executed on the SEF; that it can be executed by any means necessary. It could be executed off-facility, and if the policy objective is to have that still subject to some jurisdiction, then you treat it as a block and you say, okay, that type of transaction can be executed by any means necessary off-facility subject to the rules of the SEF and it needs to be reported to the SEF, at least the MAT leg of that. And so then more likely than not the answer to when that can be accomplished is much sooner. I would submit at least for CDS within months because all that really requires in most cases is the SEF to have rules in place and therefore be a mechanism as there is today for how blocks are going to be handled to be just simply reported to the SEF. So I don't think it unless we define what is the where we think the end state is for each, it's very hard to answer your question, Nhan.

MR. FRIEDMAN: This is Doug. I think the other side of that is that, you know, venues like ours are already offering the spread trade efficiently and electronically on the system and so Peter sort of suggested -- you're sort of incenting to move it off as opposed to moving it on. And I think in some ways, apart from what perhaps are the jurisdictional issues with the SEC, you know, it can be offered jointly on system. We do it in connection with our broker-dealer so the Treasury leg is done on the broker- dealer side and the swap leg is done on the SEF. And so I think in some ways it raises, apart from the jurisdictional issue, some of the same issues of how you're going to check -- pre-trade credit check that as a package. And then separately, you know, they do have separate settlement cycles. So you have to consider that as well.

MR. BARSOOM: All I was saying, Doug, is that there's nothing that would mandate everybody to execute on the SEF. That's not to say that they can and shouldn't be offered on the SEF and people let the market decide, but the requirement to transact it on the SEF I think is what, you know, would be -- raise a number of issues and is problematic.

MR. RADHAKRISHNAN: Let me answer the question. A policy objective is that the Commission has made a determination that certain products have to be traded on or subject to the rules of a DCM or SEF. That's it. So, and the industry has raised -- I want to be kind -- so the industry has raised confusion, because you want to do something else. But nobody has actually talked about how you meet the policy objective. So far all I'm hearing is that we need more time, I can't do this, bada beep, bada boop, but nobody has said when we can meet the objective.

So I think it's important to focus the discussion on when we can meet this objective. Now, the division in its letter has said, what May 15?

MS. MARKOWITZ: Yes.

MR. RADHAKRISHNAN: Okay, May 15th. Somebody said, well, maybe we should leave it to the industry to come up with a solution and that should be the answer. Let me tell you folks, that's never the answer, because if you leave it to the industry, in all due respect, we will never get there. I've been doing this 11 years; I know. We will never get there; right? And so if the Commission did not set timeframes, I know we will never get there.

So what I don't understand is why it is that you have a God-given right to do something and avoid what the Commission has said we should do, which is you've got to trade certain SEFs -- sorry, certain swaps -- on or subject to the rules of a DCM or SEF.

So if we could frame the discussion that way, which is what is it that you guys can do to achieve your objective but at the same time meet our objective, I think that would be a much more useful discussion.

MR. FERRERI: Ananda, it's Chris, and hopefully this doesn't sound like the voice of God coming over the speakers.

I think you're making a good point, and I think the simplest way to put it is when these orders can be taken in as they're quoted as a spread, as they're executed as a spread, and as they're cleared as a spread these issues go away. With regard to timing, I think there is -- we've spoken to LCH. We've spoken to companies like Markit and Traiana, and these efforts are underway. When I suggested maybe it's not 90 days, maybe it's 120, I was trying to put into perspective that those timeframes are realistic and those timeframes are good timeframes to start with. I think what people might be concerned about is none of us on this call can tell you exactly when the entire industry made up of all these components are going to be able to meet those dates.

So I guess what we're all saying is 90 days, 120 days seems to make sense. We're just saying we're all working on this together and we would probably -- not speaking for everyone -- we would probably appreciate the Commission's efforts to stay on top of this with us, track it, see how the progress is going, and to strive for those dates.

MR. BARSOOM: Ananda, just to follow up on your question, executed on or pursuant to the rules of the SEF, at least from ICE's perspective, we agree; executed so that it has to be subject to a CLOB or a RFQ to three. So if we take something like a CDS index R package where somebody is trading an index and single names together, if the outcome is 90 to 120 days that that package has to be transacted in a CLOB or an RFQ to three, we would submit that that's not the appropriate outcome for that type of package. But it can be subject to the rules of the SEF but not subject to those requirements for how it gets executed.

MR. CAWLEY: In the interest of time, can I just throw something in? I think we're going to cover -- there's stuff on that list behind you that actually warrants, in Javelin's opinion, more than 90 days, and there's stuff up there that we think doesn't warrant any relief. And I think if we can just identify what does. And actually the stuff up there, I don't know if there is -- if it is ultimately solvable by time, and listening to guys here with regard to butterflies and curves, it sounds as if we need 90 days at a bare minimum, maybe 120 if you wanted to put a deadline on us to figure out FPML, let's agree on what that realistic timeframe is. Some say the summer, and let's try to solve for that.

With regard to Treasuries versus swaps, it is our very strong opinion that no relief is necessary. And this is no secret to anyone at this table because we've made this abundantly clear. We trade it today and the entity-to- market trades today without disruption. I think it would be well-served to actually focus on the stuff on that list behind you that does warrant significant relief. For example, the delta packages at the end and invoice spreads, and the mortgaged back securities (MBS) stuff.

MR. MCGONAGLE: So we started the

second shift looking at where we could draw the line. We got as far as to the unwind offset packages and we want to get back to this list. I want to get the points, but I also know that CMEs have their card up and I wanted to give them a quick opportunity to talk and then let's see where we can go to next.

MR. DURKIN: Thank you, Vince. Honestly, I think we have made quite a bit of progress here today, so thank you for having this forum.

What you're hearing around this table is that there is an active group -- an active commitment to try to reach and achieve the objectives that have been outlined here today, and I think we can make that happen within a timeframe that is close to -- and thank you, Commission, for the extension that we've been given, but close to that time period. Might need a little window longer than that to cover the broader spectrum of what's up on that list, but you know, we hope that you'll all leave this meeting today understanding that we understand. We want to make sure that we are complying and that we're fulfilling the facilities and the obligations to get there and allow business to be transacted efficiently to address these matters.

With that said, just kind of bear in mind there's a timeline that we are working to set out and we think that it's achievable.

MR. MCGONAGLE: Okay. So can we -- let's move to -- because there's a couple areas I think we want to talk about. These points that are on the example, I want to hear what the feedback is taking into consideration what Ananda had said and where I started off, which is I'm very focused on what our requirements are under the Act and the regulations for required transactions occurring on SEF or on a DCM, but there's been some conversation about whether there should be consideration or could be consideration for off-market activity through EFRP or otherwise. And to the extent people have a voice there, I want to be in a position to hear it. And I also want to see, if we have a moment, whether the chairman wants to weigh in with some comments. But we'll do that when we start the third session.

So Nhan wants to get us to MBS basis,

so I'll turn it to him.

MR. NGUYEN: Okay, so following up sort of a discussion -- so issues? I know MBS basis implicates component legs that involve swaps and also instruments that are not swaps and perhaps may not fall under jurisdiction. So I just want to get a sense from the SEFs in particular and also the other participants in the market about where are we headed? Are these transactions -- are these types of transactions that SEFs are contemplating offering to transact on their execution venues? And along with whatever issues there are, like as Ananda and Vince said, we're interested in hearing about the timing behind that.

MR. LILLVIS: I don't have a super specific comment on MBS basis, but a sort of comment with respect to both spreads and MBS basis, which is I think when looking at listing those or making them become MAT, you're looking at sort of the nexus of the principles of impartial access running up against the realities of the bond settlement world, and the fact of the matter is there is a, you know, active, deep, liquid market in swap spreads that is indisputable. The other reality is that that is a market which continues to be largely inaccessible to the buy side and one which we are super focused on getting access to, but the reality is the last three months the focus has been getting plugged in so that we don't have day one failures in the outright space. And I think there is support for trading within the electronic market for spreads, but that electronic -- that sort of deep, liquid functional electronic market for spreads is one that has been hinged on GSCC membership over a big chunk of the last period of time that it's been trading. You know, I would be beyond excited if GSCC and FICC wake up tomorrow and say, you know, we've been talking about a pilot program for hedge funds becoming members for Treasury settlements and we're actually going to go live with it. But I'm not holding my breath. That's something they've been talking about for I think five-plus years. I think there is concern within the buy side that it does create a two-tier market, particularly with spreads, if they become mandatory yet there's not really a competitive marketplace that's accessible at this point in time for the buy side. I have every intention that the firm that I represent, Millennium, have access to those markets hopefully less than 90 days from now, but I'm not fully in control of that process. I think with respect to the membership of the Managed Funds Association generally, I don't know that it's, you know, again, 90 days is realistic for everyone who is an active participant in this market. I think -- I also -- there's sort of an all-or-none concern that gets raised -- I think that gets felt by the traders that I've talked with. If you said only quoted spreads become MAT and it's kind of clear they know quoted spreads, that's great. If you -- but distinguishing between quoted spreads and fitted spreads in rule adoption in a way that traders feel confident always cleaves the distinction correctly, it makes them anxious. I mean, I think there would be agreement. There's no liquid electronic market for fitted spreads right now. They don't trade that often. But they trade. And I think it would be -- and I agree at some point there may be a price you have to pay for essentially effectuating the mandate of Dodd-Frank, and that is fitted trades now become a bond swap into a quoted trade and that's really always how you have to execute. There's a lot of pieces moving at the same time though. I think I would have the same feeling on MBS basis. To the extent that there's impartial access to the physical settlement mechanisms that are tied to the, you know, impartial access that doesn't, again, create competitive pricing differences, I mean, I think it may be possible to create some standby facility that the buy side can participate in to get guaranteed settlement of the bond legs on all of these swap versus bond transactions, but that would probably have -- that facility would come at a cost.

One last thing on swap spreads I think that the Commission should be mindful of. There are active swap spread markets in non-US sovereign debt. There will, you know, that trade versus MAT swaps. And I think you need to be mindful of the jurisdictional and sovereign issues involved with essentially having a mandate that could create hiccups in non-US sovereign debt liquidity.

MR. ZIKAS: So my comment is from the perspective that CFTC's policy, it seems to be clear that if a swap spread or any of these multi-market spreads have a MAT leg, then it will be subject to the mandate, and really a question of the suitability of the 90 days. So I think one observation to make is swap spreads, you know, I look around the SEF colleagues here. Most of them or many of them offer that instrument. So in a way when you look at swap spreads, the business process as it relates to this forum is almost simpler because as far as the swap leg of that transaction, it's a single credit event for that FCM. The Treasury leg is subject to a completely independent credit and validation under another jurisdiction, either through a broker-dealer entity or an exchange that offers Treasury securities, and that has to be vetted independently.

So you have the single credit event. You can almost look at the swap spread as almost a different quoting convention. And then that spread is established and delivered to the DCO for processing. So in a way it's simpler. When you look at kind of the need for substantial more time, I would argue that just based on the fact that a lot of folks are already offering this service, it's kind of closer to ready than farther from ready. But when you look at instruments where the underlying second leg, the non- CFTC, non-swap leg, it perhaps doesn't have an electronic marketplace elsewhere or doesn't have a regulatory regime elsewhere, then that's more problematic generally speaking because you have to establish the swap leg by pegging the rate -- apply the basis point offset to the most liquid leg. And if the second leg takes a long time to establish where that happens, then I would argue probably the solution is a little bit further away.

MR. NGUYEN: Okay. Why don't we -- on that point, let's take --

MR. BERGER: Yeah, just to add one quick point on MBS basis, I think vis-à-vis swap spreads, I think if you went around the room, all the SEFs in this room would tell you that for US dollar benchmark swap spreads, they list them. People trade them on their platforms. I don't think if you went around this room any SEF would tell you that they even list or otherwise make trading available for MBS basis. So it's kind of a less liquid standardized product, and so I think where that leads us is to a solution where when we talk about the MAT leg being on or subject to the rules of the SEF for MBS basis, you move into the camp of finding a way to be or subject to the rules of a SEF. We're not trying to get out of that whole umbrella; we're just trying to say, okay, what's on and what's our subject?

MR. NGUYEN: Okay. Let's take a quick 10-minute break, and we'll have about 45 minutes to sort of continue the discussion along those lines. Thanks.

(Recess)

MR. NGUYEN: So we've got about 45 minutes, and folks, if you'd start making your way to the seats to conclude the roundtable. Thanks.

MR. MCGONAGLE: All right, we have a bit of a scrum here. If we can break it up.

MR. NGUYEN: Guys, could everyone take

their seats so we can finish this roundtable? Thanks.

MR. RADHAKRISHNAN: Nhan runs a pretty tight ship.

MR. NGUYEN: So I believe Ananda has a question, so I'll let him --

MR. RADHAKRISHNAN: Before the Commission acted on the trade execution requirement there was a clearing requirement. It has been in place for some time. And I'm assuming that some of these package trades involved a transaction that had to be cleared. How did you folks do the pre-execution credit check before the trade execution requirement kicked in? Because I've heard issues about credit check issues. My point is nobody was excused from the pre-execution credit check requirement since it came into effect, so I don't understand why all of a sudden since we've mandated trading it's not being issued.

MR. COCCO: I guess some of the package types that we touched on are not cleared versus cleared, so I guess -- I think the question is more in the realm of cleared versus cleared. Because, for instance, in the CDS space, if you have index versus single name, single name doesn't have to be cleared.

MR. RADHAKRISHNAN: So your answer is it is easier if one component doesn't have to be cleared because you just have to do a credit check on the cleared component?

MR. COCCO: Yes. So the answer is we do do the credit check on the cleared component as required, and the credit check on the -- I think the challenge is linking the credit check of each of the two legs so that it occurs simultaneously. And I think that's why we're saying that when the FPML development becomes live in July, it would be easier for those trades that already cleared. So the package is composed of two cleared components because it's about linking the two. If you don't have two cleared swaps as part of the package, then it falls in the bucket of the ones that are more challenging.

MR. RADHAKRISHNAN: Yes. I'm not sure whether I get it, but go ahead.

MR. SENFT: Well, most of the examples up on the screen involve rates, products. The rates market at the moment is one, and Doug, I know you actually run these numbers every week, is one where customers have been, for the most part, not trading on SEFs. It's less than 10 percent of trades that could be done on SEFs are being done on SEFs. So the main act really, you know, in terms of how have you been doing these trades, you know, on SEF, we're going to find out on Tuesday.

MR. RADHAKRISHNAN: I didn't mean to ask on SEF. What I'm saying is let's assume that you were doing these package transactions not on a SEF, but one component had to be cleared. So the question I'm asking is if it involved a swap that had to be cleared, and let's say it was a client trade, there still had to be a pre-execution credit check; right? And the reason I'm asking the question is because I'm getting the sense that one of the issues with trading them is the credit check, and I don't know what the issue is because unless you're telling me that you guys have not been complying with 1.73 all along. And I hope that's not the answer.

MS. RAFI: We've been doing credit checks prior to clearing any transactions, but to the extent that they've been coming in via voice, we do the credit check and then we take in the trade. But there is that latency between when the trade is executed via voice versus when we do the credit check and it comes in, which gives us time to work around any issues that the client may potentially have in terms of exceeding credit limits. So, for instance, if we have a trade come in that's in excess of limits because it's a package trade and it's viewed sequentially, we still have the ability for the client to resubmit the trade and to then tier it as an exception process. I think the concern more with the SEF rules coming into effect and these trades being required to be executed under SEF and therefore, not just having the pre-tiering credit check but also the pre- execution credit check is that the flexibility that we have right now to raise limits on the fly if clients come to us and tell us that they're seeing significant activity will be much more limited because it will hold up people's trading activity because we won't have the time to make that adjustment prior to them executing.

MR. SMITH: Okay. That makes sense.

I have a question about the package transactions that have been executed on SEFs. I know specifically that Doug, your SEF offers curves and butterflies and you've had some volume in these transactions. Are you currently able to do all these credit checks and do all of your clearing requirements as of right now with these types of package transactions?

MR. FRIEDMAN: The answer is yes. We have been able to do it, and as Dexter pointed out, you know, because of November 1st and some of the associated issues around getting people onboard, you know, we've seen fewer of those transactions as people were getting ready for MAT and it's been an unfortunate consequence to the different aspects of getting ready for trading mandate. But setting that aside, I don't think it's an issue -- I think it's good that we haven't seen the fails, if you will, or some of these issues, but I go back to what I think I said earlier and maybe we're not in the best position to articulate this but I think it's how -- first of all, the number of trades that the FCMs have to see are fewer now. They will obviously increase, and I think they are checking at the leg level as opposed to the package level. And the DCOs are clearing it at the leg level, so in some ways it's currently apples to apples, but the cost associated with checking that and the consumption of the limits is higher than it would be if they could do it as a package. So it's not that it technically doesn't work right now; I think it's a more expensive and less efficient way for the trade cycle to work.

MR. NGUYEN: We'll take a couple quick comments but I want to move on. We've got about 30 minutes left and we've made progress on this list. I want to get to the end.

MR. HARRINGTON: So for swaps, curves, flies, even invoice, those are offered today. Everything is pre-trade credit check, and just like Doug said, we do it one, by one, by one. So if you're doing a butterfly and it's got three pieces, we check each piece, get the confirmation back, and then we release the trade for execution.

MR. HIRANI: And on the ongoing offsets, you know, because the infrastructure isn't ready, so we provide a credit approval process. In fact, two FCMs here have approved packages that we processed on behalf of clients here.

MR. NGUYEN: Okay. So let's move on. Like I said, we've got about 30 minutes left. You know, some of the products that I left on this list I understand raise pretty complicated issues.

So let's start first quickly with invoice spreads. As I understand, they're transacted now in the market. What is sort of the role -- what is the role of the SEFs moving forward?

MR. HARRINGTON: Well, I mean, really, that sort of begs the question of what's the liquidity formation; right? So the SEFs don't provide liquidity themselves. The participants, you know, decide where they want to provide liquidity. So on things like invoice spreads there are participants that are moving towards that, so that's there now. I guess it's a simple as that though. It's really a matter of where the liquidity builds or doesn't build because the SEF itself doesn't create liquidity.

MR. NGUYEN: Jamie, you raised earlier

that there were some issues related to invoice spreads. Do you care to elaborate?

MR. CAWLEY: Yeah. It's my understanding that we cannot do invoice spreads because the futures leg we can't do on an EFRP basis. We can't do it off exchange anymore. We used to -- I think at one point we could, and we certainly talked about doing it with certain exchanges where they would permit us to do it but then it changed. So, you know, against MAT-able swaps. So right now, you know, notwithstanding any of the operational issues, I think it's just that it's a permission issue. We're not permitted to do it.

MR. LILLVIS: To be clear though, most invoice spreads are a future versus a forward starting swap, unless you happen to trade the invoice spread when the -- two days from maturity of the futures contract, and therefore, today, the swap leg of an invoice spread is not MAT. I think, you know, the issues with trading invoice spreads on-facility on SEF is somewhat, you know, it's proof-of-concept stage in terms of SEFs providing the ability to list all the relevant invoice spreads, the ability to account for moments in time when there are two or even three Treasuries that are cheapest to deliver against a particular maturity. Are they going to immediately start listing three invoices spreads for a particular future? Will they only list one? How will they determine it? It's a market where I think there is an interest in exploring SEF execution for it but I do think it's proof of concept right now, both in terms of the functionality in how it would work and will each SEF list every possible futures contract so that all invoice spreads are tradable? Will it only be the most liquid invoice spreads? And then seeing how liquidity comes into that from both sides.

MR. SENFT: I think I can at last define the problem that Jamie describes a little better, but I would defer to Bryan in terms of whether we're reading this right. But CME has a rule 538 that says, "In exchange for risk transaction is a privately negotiated and simultaneous exchange of an exchange futures position for a corresponding OTC swap or other OTC instrument.

So I think it's the words "privately negotiated" that get in the way because once we go on SEF it's no longer privately negotiated.

MR. DURKIN: So let me add clarity to this issue on 538, which has been a rule that has been in place for many, many, many years, and it's directly tied to core principle 9, okay, which requires DCMs to maintain a competitive, transparent marketplace for which businesses conduct it. Yes, we do allow for EFRP transactions on a very limited basis. It represents around 2 percent of the business that we conduct across all of our DCMs today, and it's there as a mechanism that is subject to very specific restrictions, that they be privately negotiated, it be subjected to over-the-counter transactions which is the point that Dexter, I think, alluded to on the OTC component of it, meaning it can't be on a DCM or a SEF. The low percentage though of the EFRP activity does not mean that trades are not occurring and that there isn't alternative capabilities or venues to effectuate these types of transactions, and I would also submit that as one marketplace, we're poised to present and move forward with the capability to offer these types of transactions on our DCM in a centralized marketplace to be able to be conducted as a packaged unit.

All of that aside, however, as we go down the path of talking about expansion of the EFRP transactions, it's been an issue that has been out there for some time in which there is a great deal of uncertainty and lack of clarity in terms of its current application in the markets. And so I would submit that before we start talking about an expansion of a transaction type that's already raising a lot of questions and issues out in the marketplace, that we resolve how it's being used today and that we get that level of clarity before we can say, well, there's some trade type out there and let's just expand it when the marketplace right now is in a quandary in terms of its application.

MR. PULLEN: Bryan, can you help me, explain to me how these aren't swaps?

MR. DURKIN: Pardon me?

MR. PULLEN: How the FRPs, how they're not swaps if they're OTC derivatives? How are they not swaps? Walk through that with me.

MR. DURKIN: In terms of the determination now that these transactions are subject to being executed at MAT on a SEF, on our rules that would not be allowed.

MR. BERGER: I think one related thing, and I frankly don't know the status of it, there have been proposed rule amendments to 538 that I think are still in flight and people had the opportunity to comment on them a number of times in the fall. And I think there's an open question, and it was even in the FAQs -- the proposed FAQ to accompany the proposed rule changes to 538 introduced this new concept of whether a swap that was MAT was still eligible to be the related position for an EFRP transaction. I think that's still an open issue that needs to be focused on as part of resolving this, so I'll just flag that as we're now at the intersection of both different regulatory regimes for swap versus futures, but also the interplay of certain trading venues rulebooks that have otherwise facilitated these type of transactions. So there's kind of a dual series of considerations there.

MR. DURKIN: So I do think you're acknowledging though that there are issues with respect to this transaction type that have to get resolved today.

MR. BERGER: Certainly. I think futures can't trade on SEFs, so there's no solution for the SEF to somehow list the invoice spread. There are potential solutions for a DCM to create products that might accommodate that. Liquidity in those products will not materialize overnight, so even if that's a longer term solution, we need some way to bridge from here to there.

MR. NGUYEN: So sort of related now, I guess cash futures versus transactions raise similar concerns? Does anyone have any additional comment on those issues?

MR. BERGER: I guess the same universe; it's just a different type of future, and it's a bundle versus a single.

MR. NGUYEN: Does anyone have any comments? Delta neutral option packages. I know some of the panelists alluded to them earlier. If you care to elaborate on some of the issues behind these sorts of package transactions and how trade execution mandate might apply to them.

MR. BARSOOM: I sound like a broken record, but again, I don't -- our view is I don't think the trade execution requirement -- unless it's defined as it has to be executed pursuant to the rules of the SEF, then I think that can be done almost immediately or called by the timing of the no action relief because the only thing that's required there is the SEF to promulgate rules to that effect. But if the requirement is that it has to be traded in a club or an RFQ to three, I think that's the wrong answer.

MR. NGUYEN: Any other the other SEFs? George? Doug? Do you want to weigh in?

MR. HARRINGTON: Well, I mean, I think that to Ananda's point sort of from the outside, I mean, it is relatively clear; right? And I think that the facilities there are there to do the pre-trade checks. I don't want to go into blocks because we'll take that off, but I think that over time my impression is that certainly the credit checking facilities, whether the facilities themselves or the FCMs, sort of to Mariam's point, are moving forward, so I don't think it's as much of a concern as far as, you know, if it's going to happen, just a matter of when it's going to happen. And I think that from a SEF standpoint, we're just in the boat now where we have to do it. So whether it's leg by leg or whether it's one package, when the market is ready for it, that's what we'll adapt to.

MR. COCCO: Ananda, I just wanted to add that to the point of swaptions versus swaps. This list is a helpful list but it's a list of rates products mostly. So we touched on some of the credit products, and if the group finds it helpful we can talk about that briefly now.

MR. NGUYEN: Perfect.

MR. COCCO: So based on conversations with our trading desk, we've looked to identify, taking a realistic approach. So what is it that we think is achievable in the near term, longer term, and then what are the problematic buckets? So kind of three buckets of transaction types that would be -- so the first one would be more suitable for an earlier implementation. The last one we need to talk about it to Peter's point, and it may be that we need some EFRP- like solutions.

So in the first bucket we've identified products such as the roll trades or cross index packages. So an example of a cross index trade is where you trade between different markets. So, for instance, CDX investment grade versus CDX high yield. So that would be an example of a cross index package. You could look at roll trades would be different series of the same index family. So CDX high yield series 17 versus series 16. So that would be an example of roll trades. So these cross index trades and roll trades would be examples that I think also to Ananda's point, these are packages composed where each component is cleared and is subject to the MAT determination. So all that would be needed to do, which is no small feat, but what's needed is the linkage so a pre-trade credit check can occur. So once that's done, then this could be a list of products that's suitable for MAT determination going live for packages.

So moving on to category two, we've

identified -- so phase two, category two would be less liquid curve trades. So where, for instance, one CDX is a CDX that is subject to the MAT determination because it is one point in the curve that has been identified by the Commission as being subject to MAT, versus another point in the curve for the same product that is not subject to the MAT determination. So this example of curve trades would fall under the bucket of cleared versus -- sorry, they would both be cleared but one would be MAT, the other one would not be MAT. And so there are some additional considerations, so we thought that this would fall into another bucket.

MR. NGUYEN: What's the consideration? What's the difference? I mean --

MR. COCCO: Liquidity. I think it's a question of liquidity. So, you know, the reason why it's been identified as being subject to MAT is that it is more, you know, it falls under one of the more liquid buckets. The other one is less liquid.

Should I move on to the third one?

MR. NGUYEN: Sure.

MR. COCCO: So the third category, we have identified --

MR. MCGONAGLE: And in terms of implementation or operational challenges, I mean, you put them in buckets, but are there challenges or concerns that are going to be coming to DMO because of May 15 deadlines or what?

MR. COCCO: Yes.

MR. MCGONAGLE: And that's for both?

MR. COCCO: So the idea is that we don't think that May 15th is sufficient frankly for even the first bucket because from what we heard on the FPML development, that's kind of a June-July timeframe. Phase two would be pushed out further. And phase three, I think we would be suitable to have a separate conversation about what needs to be done. It's probably not a question of time. I think there's a MFA letter that focuses on rates products, but I think some of the thinking could be analogous here.

MR. MCGONAGLE: Okay.

MR. COCCO: So if you like I can just talk briefly about the third bucket that we looked at.

MR. NGUYEN: Yes.

MR. COCCO: So the third bucket does comprise option delta packages where you have swaption plus the delta and the delta would be a single name, which is not currently cleared and so forth. There's also some one-off transactions, so non-standardized, customized transactions that are packages. And the physical exercise of an option into a swap that's subject to the MAT determination.

And then the final component of this bucket would be portfolio compressions. And I know that it might be suitable to have a separate conversation about portfolio compression, but just briefly the point here is that to the extent you have preexisting risk that is already on the books and you execute a single swap that is just simply the expression of the net risk that was preexisting, even though that swap would be in theory subject to the Made Available to Trade determination, it's not really new risk because it's just the net expression of risk that preexisted. So the idea would be that those -- the unwind of the preexisting swaps and the new swap that expresses that net position would not be suitable for being run through the SEF because it could upset the whole purpose of the exercise, which was to reduce down the noise, so to speak, and just have one single swap expressing that position.

MR. PULLEN: Would you identify tranche versus index as a separate category? Is that one of the subs of those categories?

MR. COCCO: Yes, thank you. Sorry, actually, I missed that one and that is definitely a tranche delta package. Thanks. That would be the third bucket.

MR. FERRERI: I wanted to add that as well. CDF tranches, and as well is the issues with multiple CCPs.

MR. COCCO: Yes, we agree with that. So tranche delta and multiple CCPs. So where you have one leg cleared on one CCP and the other leg cleared on the other CCP.

MR. HARRINGTON: Just one question on that. I know, Nick, you're probably going to kill me because I keep redirecting to you. So when you're doing a roll, right, the majority of roll trades are risk on, risk off, and I guess maybe Mariam you can comment on this as well. So the next time we roll from 21 to 22, there's a massive spike of activity during that few days, week, you know, around there, where people are doing those trades. When those come in to Traiana or Markit, for example, when it comes in and then it actually gets played back to the FCM, I mean, does the system say, okay, there's 200 coming off and 200 going on? Does it say it's 400 or does the technology say this is actually risk off, risk on?

MR. SOLINGER: So we have a fairly sophisticated netting methodology, and I'll start with what we do with executed and cleared trades where we do very sophisticated netting to give consideration for putting risk on and taking risk off.

With respect to open orders, we actually take a conservative view of the netting methodology because of the clearing certainty obligation or the certainty of acceptance that the FCMs have to stand behind orders. So we keep orders in different directions in separate buckets for the purpose of calculating utilization. So in that case that you highlight, we would be treating the buy and the sell as independent transactions that could execute separately unless they're tagged as being part of a single execution that would be able to be enforced by the SEF to say, yes, these are both going to go or they're both not going to go. If there's uncertainty to, on our part, as to if two transactions could execute individually or together, we keep them in the separate buckets long and short as a consumes limit, and that's something that we agreed over a long period of time with the FCM community so that they can stand behind their obligations to their client and they can ensure that they don't exceed their limits at the CCP.

So again, to the extent that we get the indication that it's multi leg, we can then take the existing netting methodologies we've already proven with the FCM community, apply them to the orders bucket. And I think that's why our timeframes for doing so are very contingent on the messaging implementation that we're all working on.

MR. PULLEN: Nick, are you taking those messages to know that they're a package using the current FPML flags for customer strategy ID or is this part of the new flagging system that we keep on talking about?

MR. SOLINGER: So right now there is actually not a strategy or package support in FPML five, six, and the pre-trade messaging. So anything that we could do right now would be completely proprietary.

MR. PULLEN: That's post.

MR. SOLINGER: It's in the post. It's in the confirmation. So we have -- the functionality we're building now we're building based on what's in the confirmation view which, again, is not sufficient for SEF to DCO messaging and we're aware of that, but that's what we're rolling out for delivery to the FCM community in April, which then has to be adopted by the FCM community, adopted by the SEFs, and obviously, we're working with all of them on that.

MR. SRINIVASAN: I have a question on FPML, and this goes to the DCOs. And I see there are at least three DCOs here. I'm sort of looking at Peter as representing the DCOs.

So in conversations with the market participants, we have been told that LCH and the CME can handle FPML but ICE is on a different standard. So can people here give us some -- and the discussion is for the industry to sort of -- for the FPML protocol to go into production. So the question is from the DCO side, can we get some clarity on where you guys are in terms of being able to (inaudible) and are you all on the same standard?

And maybe this question goes to the SEFs also. Are the SEFs going to be supporting it and the DCOs also going to be supporting the FPML? So it shouldn't happen that six months down the road enough people come back and say I was never on FPML. I can't support the standard.

MR. BARSOOM: From ICE's perspective, I don't think that should be a consideration for the timing because I don't think -- today we clear those transactions whether they come in as a package or as a leg, so I would submit that should not be a milestone that needs to be met in order to determine when the appropriate timing is for the execution requirements to be in place.

MR. SOLINGER: I think if there's void ab initio, we would have concern. If there's void ab initio at the leg level, we would have concern around enabling netting of orders because we would be giving the benefit of the clearing of both of them at the order screening stage without the certainty that they would ultimately clear that way. So we do have a dependency. Put aside my technical readiness, we have a great dependency on what is approved as an order, executing as we approve it and clearing as we approve it, and I think there are differences in clearing models. So this void ab initio risk might be different at different CCPs, but that's -- we're very dependent to only enforce limits in the way the trades clear.

MR. MARON: And we have the same issue in terms of how we handle the process as well with FX API handling it or using SEF's individual APIs to know whether an order is a spread or not, but then further downstream, even if we were to manage it between the FCM and the client, we have to have the confidence that the DCO and the FCM will match it in that same process.

MR. DURKIN: I thought it was to the DCOs, so just trying to respond. We're really not overly dependent on the protocol. We're able to extend our API to facilitate a solution here, but we're, again, reemphasizing. We're trying to work with the community to make this as seamless as possible, understanding the time concerns that have been conveyed to us today.

MR. HORKAN: From LCH's perspective, I think the important part is we clear a lot of the cleared swaps, MAT, or non-swap now. The objective is to make sure there's not market disruption as relates to void ab initio and we're actively working, as Sunil said, with development of the definition of FPML 5.7. We think it probably takes from the end of that definition in development, three months for us to implement and partner with everybody to make sure there's efficient testing to do that. But to be clear, once the definition is done and coded, then you need time to put it into each of our systems and ecosystem and test it appropriately.

MR. MCGONAGLE: Okay. So we're going to end the roundtable here. The GMAC meeting is scheduled to start pretty quickly after we conclude.

I wanted to personally thank everyone for coming today, thinking about these issues, have submitted comments in advance, helped frame the dialogue. Certainly, Commissioner O'Malia with the TAC on Monday, helped refine these points, and that's much appreciated.

Commissioner O'Malia started the morning off with a question about whether we were requiring rule changes in connection with what the division had offered for relief for packages, and so I want to clarify that the No-Action letter that DMO issued controls. So the extent that there is some confusion or lack of clarity in the press release about what is available or what relief is available to May 15, please rely on the no action relief that I've signed.

With respect to just the logistical point, for the roundtable, comments can be submitted for this roundtable. They will go up on the web by February 28th, and we're going to shut that down. Obviously, the conversation, I think, is going to continue in certain respects. I, of course, am very focused on continuing, as we all are, on continuing with the implementation of the trade execution requirement. And then I also want everyone to be very aware that the chairman has imminently, if not already, issued a statement in furtherance of conversations surrounding the path forward and interaction with the international community particularly as it relates to EU. The chairman will likely address that at the GMAC, but the press release, including no action from the Division of Market Oversight will be hitting the airwaves pretty quickly. So I just wanted to make you all aware of that.

And then thank you again for participating today, and thank you, Commissioner O'Malia.

COMMISSIONER O'MALIA: I think -- thank you everyone for participating. In the flexibility -- and I appreciate you answering, I mean, everybody gets relief for the 90 days or roughly 90 days. It does require that SEFs have rules. What should the SEFs be preparing in order to accomplish this? And is there a timeframe in which you want to see these rule submissions, and what is the expectation around that?

MR. MCGONAGLE: So on that particular issue I'll need to get back with the group, and if we have to put something up on the web or reissue some statement so there is particular clarity about whether we were requiring a rule, my understanding was there was sort of some optionality to SEFs because the idea is to the extent that you're bringing packages onto SEF and allowing trading, you don't have to wait. We're not waiting for May 15th for people to actually engage in the business that they're engaging in.

I'm getting pulled on here.

MS. MARKOWITZ: Or it could have been, you know, we'll clarify this. It could just be that -- because we sent letters out to all the SEFs, you know, notifying them and, you know, reminding them that they have an obligation to have the trade execution rules on their books. And I believe that may have been a reference to the trade -- but we will clarify, but it's that you all -- you've gotten this in this letter that as of, you know, as of Tuesday, the mandate goes in for -- when I'm talking about packages, we're talking about any MATed swap and that you have to have trade execution rules on your rulebook. But we will clarify if there is anything else that was intended.

COMMISSIONER O'MALIA: Thank you very much. Ananda's point earlier was well taken. We are moving towards a trading environment, a SEF environment. And I think that's correct. And I do appreciate the line-by-line analysis everybody has offered and some of the challenges associated with each of these packages. We started down that on the TAC meeting. Today was in much greater detail. We had the credit hubs being able to reflect on what's possible, the FPML issues, et cetera. Obviously, it's incumbent upon us to provide some direction going forward, and we have this 90-day period and the comments here to move forward on that. And I'm glad that so many of our staff were here to kind of think about this so we can provide that necessary direction within the 90-day timeframe on either when the execution starts or if additional relief is necessary per package.

So thank you, everybody, for your participation and your thoughtful comments.

MR. MCGONAGLE: And just one final note. Of course, I need to thank the staff who have been working very hard on this, and I started that at the TAC on Monday, but I definitely need to make sure we end particularly for Nhan for running the panel today. Thanks again.

(Whereupon, at 12:26, the PROCEEDINGS were adjourned.)

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CERTIFICATE OF NOTARY PUBLIC

DISTRICT OF COLUMBIA

I, Mark Mahoney, notary public in and for the District of Columbia, do hereby certify that the forgoing PROCEEDING was duly recorded and thereafter reduced to print under my direction; that the witnesses were sworn to tell the truth under penalty of perjury; that said transcript is a true record of the testimony given by witnesses; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this proceeding was called; and, furthermore, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

(Signature and Seal on File)

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**Notary Public, in and for the District of Columbia**

**My Commission Expires: March 14, 2014**