COMMODITY FUTURES TRADING COMMISSION

SECURITIES AND EXCHANGE COMMISSION

PUBLIC ROUNDTABLE TO DISCUSS SWAP DATA, SWAP DATA REPOSITORIES, AND REAL TIME REPORTING

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C O N T E N T S

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P R O C E E D I N G S

(8:47 a.m.)

MR. SHILTS: Okay, if everybody could take their seats. We want to get started. Good morning. My name is Rick Shilts and I'm the Acting Director of the Division of Market Oversight here at the CFTC. I'm pleased to open the joint CFTC-SEC Public Roundtable to discuss issues related to swap and security-based swap data repositories and data recordkeeping and reporting requirements associated with swaps and security-based swaps. In addition today we plan to discuss issues related to the real-time reporting of swaps and security-based swap trades. We have a very full agenda that is designed to focus the discussion on what we believe are very pertinent issues. The discussion today will be divided into four panels. I'd like to thank all of our distinguished group of panelists for agreeing to participate and taking time out of their busy schedules to discuss these important subjects. I'd also like to thank the staffs of the SEC and the CFTC for their hard work in planning today's Roundtable.

This Roundtable is the second one to be conducted. The first focused on issues related to governance and conflict of interest in the clearing and listing of swaps. In addition we have another tomorrow related to swap execution facilities. That earlier Roundtable and the ones today and tomorrow illustrate the collaborative relationship that the staffs at the two agencies have developed in our efforts to implement the various provisions of the Dodd-Frank Act. As you all know, the Dodd-Frank Act brings the over-the-counter derivatives under comprehensive regulation. Standardized derivatives will be traded on transparent trading plan platforms and cleared by regulated central counterparties. This will increase transparency as information on swaps and security-based swap trades will be available to regulatory authorities and transaction data will be available to the public on a real-time basis. The overarching goal is to reduce the overall risk in our economy which will greatly benefit the American public.

Key elements of the Dodd-Frank Act include the reporting of swaps and security-based swaps to a registered entity, the establishment of swap and security-based swap data repositories to accept data on swap trades, and procedures for real-time reporting of key data on executed swaps and security-based swaps. The purpose of this Roundtable today is to hear the opinions and advice of persons with diverse interests, experience, and points of view on these various aspects of the legislation. The CFTC and SEC staffs look forward to hearing the thoughts and analyses of those on the panels today. The Roundtable should assist both of our staffs in implementing the Dodd-Frank Act.

For the record, I'd like to note that all statements and opinions that may be expressed and all questions asked by CFTC staff are those of CFTC staff and do not represent the views of any commissioner or the Commission collectively.

And before I turn it over to my colleague, Robert Cook, I need to note some housekeeping items. I want to point out that this is not the only opportunity for interested parties to have input on these issues. Both the CFTC and SEC have mail boxes into which anyone can submit public comments and supporting materials. These comments will be read by staff and will help us get diverse input with respect not only to the specific rulemakings we will addressing today, but all the rulemakings related to implementation of the Dodd-Frank Act.

Everybody should know that the meeting today is being recorded. The microphones are in front of you. Please press the button and you'll see the red light. That means you can talk and speak directly into the mike. When you're finished, please press the button to turn off the microphone. And we ask that you refrain from putting any blackberries near the mike or cell phones near the microphones as they've been known to cause interference with our system.

And now I'd like to invite some comments from my colleague, Robert Cook.

MR. COOK: Thank you, Rick, and good morning. I'm Robert Cook. I'm the Director of the Division of Trading and Markets at the SEC. I'd just like to very briefly echo some of the comments that Rick just made.

First, to thank the staff at the CFTC for their hard work in preparing for this panel and hosting it and for the collaboration and cooperation that you've shown to our staff at the SEC, and also thanks to the staff at the SEC for their work in helping to put together this panel. And we'll look forward to hosting you over at the SEC tomorrow for the panel on sets.

Secondly, I'd like to thank the panelists for joining us today and again, as Rick mentioned, your insights and contributions to this discussion will be very important to us as we seek to implement the provisions of the Dodd-Frank Act.

The topic today can be technical, but I think it's -- we'd all recognize it as extremely important to fulfilling some of the core goals of the Dodd-Frank Act, including enhancing transparency, creating better market efficiency and liquidity, promoting standardization, reducing systemic risk, and enhancing the ability of regulators to monitor and regulate the currently OTC derivatives markets.

So with that in mind, I'd like to also echo Rick's comments that this is not the only opportunity for anyone to participate and offer their comments in this dialogue. The mail boxes that Rick mentioned are very useful to us to get comments from people from various different backgrounds on these issues. And the rules that we will adopt under the Dodd-Frank Act will first be proposed for public comment, and we strongly encourage everyone who has interest to submit their comments on those rules. And we look forward to receiving them, and we will take those comments very seriously.

And then finally, I'd like to make the same hedge clause, statement, that Rick just made which is that any comments, questions, lines of inquiry that you may hear from SEC staff today really reflect their own views, not those of the SEC, any of the individual commissioners on the SEC, or their colleagues on the SEC staff.

So with that I'll hand it back to Rick.

MR. STILTS: Thanks, Robert. Before we start the first panel, I'd like to go through the agenda. As I mentioned, we have scheduled four panels today. The first panel is going to discuss swap data repository functions and responsibilities, and it will run from 9:00 to 10:45. The second panel concerns the mechanics of reporting data on swaps which will go from 11:00 to 12:45. Our third panel today concerns real-time reporting and the data elements to be disseminated and that will go from 1:45 to 3:30. And lastly, our fourth panel concerns the effect of transparency on liquidity and the block trade exception and that will run from 3:45 to 5:30. And we plan to conclude the Roundtable at 5:30 p.m. I'll be the designated timekeeper and try to make sure that we stay on time today.

So I'd like to get started with the first panel. As I noted, Panel 1 will focus on registration functions and responsibilities of swap data repositories. Some of the topics we want to discuss today on this panel include the scope of a swap data repository's core repository functions, any other regulatory functions which SDRs should perform with respect to data in their possession, the mechanics of regulators' access to this data both for foreign regulators and domestic regulators, and any jurisdictional and information-sharing issues which might arise around foreign swap data repositories.

To begin the discussion, I'd first like to go around the table and have all the panelists introduce themselves and just let us know where they're from.

MR. GOOCH: Thanks, Rick. My name's Jeff Gooch from MarkitSERV. We're an electronic trade confirmation provider for OTC derivatives. I'm Chief Executive.

MR. SPATT: My name is Chester Spatt. I'm a professor at Carnegie Mellon University. From 2004-2007 I also happened to serve as the SEC's chief economist. I'm currently a member of the Shadow Financial Regulatory Committee that meets quarterly.

MR. TUPPER: Bruce Tupper, Intercontinental Exchange or ICE. I manage the ICE eConfirm Trade Repository for Commodities and Energies.

MR. MACBETH: Stewart MacBeth from DTCC. I'm the General Manager of DTCC's Trade Information Warehouse.

MR. PUJOL: Good morning. My name is Sebastian Pujol. I work in the CFTC's Division of Market Oversight.

MS. NATHAN: Hello. I'm Susan Nathan. I'm a Senior Special Counsel in the CFTC Division of Market Oversight.

MS. SWINDLER: Good morning. My name is Jo Anne Swindler. I'm in the Division of Trading and Markets at the Securities and Exchange

Commission.

MR. PRITCHARD: Hello. My name is Raf Pritchard. I'm the head of TriOptima North America. We provide portfolio compression, exposure management, and intertrade trade repository to the OTC swap market.

MR. OKOCHI: Hello. My name is Jiro Okochi. I'm the CEO and cofounder of Reval. We provide a web-based solution for corporate end users and banks using over-the- counter derivatives.

MR. DIXON: Good morning. I'm Mark Dixon with Evolution Markets. We're an over-the-counter derivatives broker.

MR. DIPLAS: Good morning. I'm Athanassios Diplas. I'm from the global credit trading side of the business and I'm in charge - I'm the global head of systemic risk management. I also co-chair the Credit Steering Committee under ISDA.

MR. STILTS: Thank you very much. We're going to be asking some questions from the SEC and

CFTC staff, and we would like to give everyone an opportunity who wants to respond to a particular question the chance to give us their opinions and if it goes on too long, I may be forced to try to shorten the response so that we can go through all the topics we want to discuss today. And I guess we'll kick if off with the first question from the SEC.

MS. SWINDLER: Thank you, Rick. Let me start off and just ask you, if you could address a fairly broad question but one very important to our responsibilities. In your views, what are the best ways to address the core duties of SDRs? And if you could, in particular, focus on the confirmation obligation. Thank you.

MR. MACBETH: This is Stewart MacBeth from DTCC. In terms of core duties, clearly the reporting of GTs is key. To do that, though, there is a series of underlying requirements that are needed including data, particularly trade data, trade event data, that are held as positions and other data attributes associated with those positions that can be reported externally both to regulators based on that regulatory ambits and also to the public at a level of aggregation and anonymity. In terms of structure to provide that, various levels of infrastructure would be required including practices around business continuity, strong governance over the offering ordered in compliance procedures. So the function as a whole primarily focused on reporting but with supporting infrastructure to ensure that reporting is of high quality and appropriate.

MR. STILTS: Anybody else?

MR. OKOCHI: I'd like to echo what Stewart just said, but also add that I think it's not just about the data that the SDR holds, it's what to do with that data. So looking at future risks through analyzing current valuations, whether that's theoretical valuations or credit adjusted valuations to liquidate the positions, making sure the SDR is flexible to add new products pretty quickly, on top of all the security and redundancy disaster recovery that should also be required. So I think it's really -- not just thinking about what to do with current and past trades, but how to grow with the market because I think our duty is to make sure that the markets continue to perform and grow along with complying with the regulations.

MR. GOOCH: If I could add to that. I think this topic of confirmation SDRs comes up quite a lot in discussions. It's pretty worth backing up for a moment to say why are we talking about two things at the same time. Clearly to fulfill the roles that Stewart Jiro have commented on, you need - SDRs need a source of accurate data that's complete, agreed on by market participants, and timely. And confirmation is a good source of supplying that in a sense you have habit transactions being electronic, both parties have agreed. You have all the legal details. Most people are motivated to complete that as quickly as possible. And really, confirmations is the baseline that feeds SDRs, feeds CCPs, feeds all the transparency requirements. So it's a very important part of the end game structure, I think, in terms of the OTC markets. Whether you call that an SDR function, whether you call that a SEF function, whether you call it something else, I'm not sure that that is important frankly. I think you have to call it something, and that's probably something for the Commission to decide on the right naming. But I think confirmations themselves have an important part of the ecosystem if this whole reform is going to be successful in terms of making sure we get high-quality data out to the right people.

MR. SPATT: One particular issue with respect to the composition of data that I think is particularly important to flag is the arrangements for posting collateral and how collateral evolves, which might vary quite a lot because ultimately the assessment of credit exposures -- and obviously it's credit kinds of issues and systemic risk that are motivating much of the reform -- the assessment of that depends on the fine detail of the contract. So I think it's very important that

that information be specifically captured and be readily available to the regulators. That was clearly a crucial problem several years ago.

MR. DIPLAS: I think if I can follow up on that point, I think we were discussing some of the core functions of the data repositories and that is best captured along with the confirm. But then we have all of these ancillary functions of the thing are important. Now collateral in particular is a thing to be associated currently as we stand with a specific report because those are organized on an asset class basis while collateral is actually collected on a legal entity basis most of the time or several different entities together that might have actually have cross netting agreements, et cetera. So I think a single report would not be able to individually fulfill that function, but that information is to be obviously accurate to let the regulators go to multiple ones sometimes to collect that but also they have to go individually to specific firms that participate to get the full picture.

MR. STILTS: Are you saying that the SDR would have to go to the individual firms?

MR. DIPLAS: No, no. The regulator will have to actually get that systemic risk picture basically. But the other thing that is important was the report, it varies by asset class and is that it provides other functions that are perhaps known that the seller demanded by the legislation but they're actually equally important. So asset class such as credit, they contain right now information that help us actually deal with things like credit events, to be able to actually settle the contracts in case there's a bankruptcy, et cetera. So a lot of that information might not be mandated by the legislation, but at the same time is very important in the design of the report.

The second thing that is fundamental from our perspective is a market participant. And I think is similar to what regulators have is to have a single report per asset class so that all that information can be contained in one place and we don't have actually information falling through the gaps. Part of the problem in the past has been that information was fragmented and that caused the actual problems.

MR. PRITCHARD: This is Raf from TriOptima. I agree with both of those points there. I think just to mention the systemic risk monitoring point and really the key is to make sure that a repository has a comprehensive view of all the swaps and standing live contracts. And there's a broad landscape there. Our exposure management service see 6 million trades across many asset classes, credit, equity, FX, exotics, commodity, et cetera, and it's many different instrument types within that simple, high- volume vanilla trades, forwards and swaps, but also complex trades and structures. And what's really important for a repository is that it has comprehensive coverage. It captures the whole universe of trades out there and uniquely. It doesn't double count anything. So the approach taken should really focus on that goal because that's where the systemic risk monitoring benefit can be best realized.

MR. PUJOL: Excuse me. I'd like to follow up on a few things that have been said here because it seems like we're drawing -- there's a little bit of distinction between the data that people agree should be in it in order for the repository to be of use and the functions, and I'd to explore just a little bit more the ones that you think the SDRs must perform with respect to that data and that no one else in the market is going to be in a position to perform. If you could just give us a little bit more of a sense of assuming that the position data is there and the valuation data is there and all that information gets there, is there something that the SDR has to do with respect to that data, or is it optional? Somebody has to do it but not necessarily SDRs.

MR. MACBETH: So the key thing the SDR has is this potential completeness of data. So others have already commented on this, but this fragmentation point is key. The current environment that we work in and we live in, the information is there. It is available to regulators. The problem is an aggregation and consolidation one. And what the repositories really are going to provide is a solution to that problem and that in reality is the key differentiator for repositories. Now the thing that makes hard is the structural elements of how you then put that kind of model in place because there's potentially -- and there's a risk here that we blend into the panel to some extent -- the different actors and different service providers start overlapping in some of their roles, or there's many service providers providing an SDR function and then the aggregation responsibility falls on a Commission to aggregate and then in the public domain, it's potentially impossible to aggregate. So things like the net open interest in certain contracts can only be determined by a level of detail which won't be available to the public and the counterparties won't be disclosed to the public, therefore, the net position won't be correctly able to be netted. And we can see that in our data at DTCC even looking at some of the information across clearers if you try to aggregate that. Some of our netting actually produces lower numbers than they might publish. So the true net open interest in the market, some of the trading activity that goes on in the market, is only really visible from this single vantage point of a repository in an unfragmented mode. So that to my mind is the big differentiator about a repository. We agree -- there were some comments made in effect about different consumers, people talked about systemic risk and the value of collateral and information about where collateral is held, that's clear. The asset class specialism of repositories as a provider is very useful because each contract form and potentially some of the additional processing provided does have its own peculiarities. It's very difficult, I think, to play across everything in the whole space successfully and move at the pace that the market does. So from a provider perspective, concentrating in a market and delivering to that market, is a good model.

In terms of -- we talked a little bit about additional services. Athanassios mentioned those. So from a DTCC perspective, that's very important to us. We do offer some additional services. We take in confirmed trades. Jeff Gooch mentioned that. But from there, we do maintain a record and we actually perform life cycle event processing on that record, date things for succession events. So if you imagine the underlying corporates that go through mergers, acquisitions, they restructure, we maintain that. So that if a regulator wants an actual position, and understanding in terms of market exposure and the market today, they can get that readily. So confirmations alone -- confirmation is the best source, but confirmation alone isn't all a repository will need. It will need some capability to maintain those contract records thereafter. And market participants themselves enjoy that centralized data base. That was the history of DTCC's trade information repository.

It really was about mitigating ops risk and producing efficiencies by being a central data base. The world before was a very confused, bilateral reconciliation world. There was multiple bilateral reconciliation points that happened. And the value proposition of the warehouse was really to be a central data base so that each participant could go and reconcile to that record and not have to deal with the bilateral complexity. So I think it has been kind of a powerful model and is a well proven model. But it's interesting as we go through this reform, there are some threats again with the other participants that are becoming actors in this space. And clearly there's some of the requirements currently that -- we've enjoyed some ability to grow business over a period, but whether there are threats from things like ICCPs average stringers as SDRs, providing some of the same data, they could be at the expense of ultimately the public interest where that net position needs to be presented, is some of the issues in implementing regulation we're going to have to try and manage.

MR. TUPPER: Bruce Tupper with ICE eConfirm. Just to follow on, I think it's important we take a step back and just look at within Dodd-Frank the duties of an SDR and just to paraphrase those there, to accept data, to confirm, maintain the data, and provide the Commission with access. And the Commission would establish automated reports, monitoring screening, and analyzing data. Just speaking for Energies and Commodities, we've operated this service for eight years and our warehouse holds 5.1 million trades. One of the biggest challenges I believe to accomplishing the analyzing and position reporting in these ancillary services is first to build the system that has the connectivity to all the market participants. When you look at Energies, it's a very diverse group of participants. It's made up of banks, energy companies, producers, hedge funds. So there was a real challenge when we set out to build the warehouse for Energies was to figure a way how to connect all these people into one central repository. That really is going to be key and working with the Commission to create the rules around people's access to that system, how they should connect, just pretty much the rule book to an SDR. I believe once that's accomplished and the industry understands what they need to do, the fallout of that will be a very robust data base that the Commission then could put these ancillary services on that were mentioned by other panel members. You can margin the collateral, but until you kind of accomplish step one which is the first part of the duties, you're really not going to achieve your goal. I would say working with the Commission is that there's a lot of components that we were able to achieve or build with the industry, especially with Energies it's very diverse as I mentioned. So I think having or working with the numerous standards bodies -- the BN-1, there's the EEI in Energies, there's LEAP which is for physical oil -- you really need to engage each of these standards bodies to really get them onboard so that their costs -- the industry would accept that SDR. So, for example, if you're after gaining oil trade data, you're going to want to work and standardize all those terms so that all of the, let's just say non-large volume participants, would accept that and then submit you the data. Once you have the confirmed trade data in, and then as mentioned earlier, life cycle events is very important. To date, our experience has been our customers haven't really had a demand in Energies for life cycle events. I would really attribute that to probably OTC clearing or clearing of swaps. So once that service came to market, there was a really diminished amount of I'd say open interest out there or risk, real concern. A lot of those, just say, risky participants were moved quickly into the clearinghouse. So what you were really left with was this kind of pool of trades where it was either large dealers or you had producers and they were helping them hedge. Right? Which is -- and a lot of those trades really weren't candidates for clearing because of the cost of collateral to post. What the producers were -- really just as many people -- probably pretty much -- their production to be produced is really the collateral. So it's not a cash collateral so to speak. So we work very closely with a lot of these smaller producers to build functionality where they're not very technically savvy to help them come on to the system and then aggregate all of them. So I guess in summary there's a lot of building blocks which I think are really well described in the bill. In Dodd-Frank they describe the duties and then once that's accomplished, this Section 5 really starts speaking about the reports and analyzing the data. I think you're really well positioned to do that. But I think really the goal is just really to establish that first part. Thank you.

MR. DIPLAS: I would think -- I mean, we focus a lot of the discussion obviously on the more electronically confirmed trades which is important. Obviously we would love all the trades to be such. But there's also trades that are not electronically confirmed and legacy trades, et cetera, those are small counterparty. I think we need to also think as we design the framework that we create a framework where it can accommodate both. One of those things -- this is kind of the approach we took, for example, on the credit side where we have kind of the gold records which is basically the electronically confirmed trades, but at the same time we have created the concept of the copper records which is basically a more distilled set of information which has been agreed with the regulators. We created a few different buckets of information where different trades can fall in. And then we have a process by which we can agree what needs to be transmitted to the regulators. And I think that's important, that that kind of concept is expanded and that's where it can also allow for new products to come onboard and it also allows or gives the time to the providers to develop basically the electronic confirms as needed, et cetera.

MR. PRITCHARD: I'll pick up on that. I think that's a very good point, Thanasas. There is a proportion of trades out there. There is more complex legacy, exotic for whatever reason, and not electronically confirmed. And I think if we bear in mind the comprehensiveness goal of the repository, then it's really key to go to the source of the trades and that's the parties themselves, that they should submit the trades direct to the repository rather than some intermediary, very successful electronic confirmation or whatever platform. But the parties themselves have a strong interest in doing their own risk management across their entire portfolios. And thus they've got the best view of these trades and they're the best place to be the source of it for repositories.

MR. SPATT: I'd like to follow up on the last couple -- this is Chester Spatt. I'd like to follow up on the last couple of remarks.

I think it's very important, too, what

the data repositories would be doing, that their sphere is potentially beyond clear and standardized trades. And I think the last couple of comments really highlight that issue and what's some of the crucial nuances there. One shouldn't think of this in terms of some equivalence between data repositories and clearing. It seems to me the scope for data repositories is much -- is broader.

And, again, if you think back to the -- you know, I think we sometimes kind of lose sight of what some of the particular issues were that kind of motivated kind of where we are now. And I'm not suggesting that we kind of narrowly link to the details of what happened a few years ago, but we also ought not to forget what happened a few years ago. But, you know, situations like the types of derivative contracts that AIG entered into, these are probably -- in many cases, these would not have been sufficiently standardized. These probably would not have been cleared kinds of contracts. The parties that were on the other side of these trades were interested in customized exposures. The issues of understanding systemic risks are intimately linked to those types of instruments as well as the instruments that can be offset.

The systemic risk issues weren't really as directly associated with contracts that were being netted. You know, and I think that -- you know, that point I think is understood. But obviously there's tradeoffs with respect to the scope for clearing, and I'm not advocating universal clearing. But I do think the data repository issue, the margin for the use of the repositories is much broader than with respect to standardization and clearing.

MR. GOOCH: Can I make a couple of comments on that? I think -- first of all, I agree, you need -- for repositories to work, you need 100 percent trade population. And if you look at electronic trade confirmation today in the credit market, it's about 99 percent of trades are electronically confirmed. In the interest rate market about 80 percent are confirmed and about 90 percent could be if everyone used the available platforms. So with 1 percent or 10 percent there is definitely a gap. And it's important those transactions are collected electronically. Clearly they can't be collected in a format as a full legally binding, ISDA-type confirmation. But, you know, there needs to be a fee for those on the same basis.

I think going back to this question of what the repository should do with that data, I think in terms of "must do" the only thing they must do is report it to regulators and the public. And, you know, the toughest reporting varies whether you're talking about they exist versus systemic risk perspectives, which will be about positions; or whether it's market surveillance perspectives, which means you need a full independent audit trail on every trade. And that's the sort of decision for the commissioners to take.

But probably what repositories should do is use that data for something else as well. I don't think it matters too much what that something else is. But the truism in almost any system you built within a firm or in a regulatory environment, if you fire data into a black hole with no feedback, generally the quality deteriorates. And you see that with transaction reporting in Europe where firms for many years have had a requirement to report derivatives and cash products to regulators. They fire them every day into this black hole. They never know whether they got it right. And every few years, people get very large fines for having missed literally millions of transactions that are misreported.

And I think an important thing about, you know, what Stewart does at DTCC and what some other people around this table do is they collect the data for a purpose which the participants then use, whether it's settlement, whether it's reconciliation, whether it's something else. If it's wrong, it affects their own business processes and they will fix it probably much faster than a regulator will spot a failure to report trades.

So I do think that SDRs fulfill their primary function of creating regulatory transparency. But if they're going to be accurate, then it needs to be something that the industry itself is using them for. And also that, I think, positions them more as a benefit to the industry as opposed to a regulatory burden in terms of reporting.

MR. SHILTS: We'd like to move on to the next question. We may try to come back a little bit later.

MS. NATHAN: Thank you. Given the highly confidential nature of SDR information, what are some of the actions that an SDR might take or the rules in SDR might implement that will help to maintain the privacy of all swap transaction information? Particularly, what internal processes and safeguards should an SDR establish to protect the confidentiality of swap data in its possession.

MR. OKOCHI: Well, certainly you can start by having high levels of security protocols for encrypting the data from the outside. I think internally you can set up code bases for protecting the individual counterparties as well as their activities with whoever's on the other side of the ticket.

So, you know, I think, again, it should be fairly comprehensive to be able to implement that. I think most of us around the table already have those levels of security around, you know, their own day-to-day businesses. So I think it's just really taking that to the next level, allowing, you know, regulators to come in and also view.

You know, we also would have to be able to provide access and proof that the regulators looking in are indeed authorized. So having the proper administration tools with each regulator and getting the proper approvals for access to the system would be key.

You know, I think on that note of being

able to access the information, you know, clearly given the global coordination of trying to get the reform in place there should be a mechanism for global access easily. You know, clearly using the Internet would be an advantage and there are certain protocols that would allow for secure access over the Internet.

MR. DIPLAS: I would agree with those comments. Athanassios Diplas from Deutsche Bank. Obviously for us as participants the protection of that information is paramount. We want to ensure that it doesn't fall in the wrong hands.

We also, flipping kind of the privacy question that you just mentioned, we also believe that the parties that need to know have to have access to that, and that means the various regulators. And we've been working on this topic obviously, actually for the last couple of years. One of the issues that we have is basically kind of different laws across the globe that sometimes inhibit that access of the various regulators. I think the regulatory committee has been doing a lot of work to try to actually create a framework that actually enables the parties that need to know to have access to that information legally. But right now, a lot of us as participants are hamstrung by different laws in the various jurisdictions that doesn't allow us to fully rebuild the counterparty names, et cetera. So I think we need the help with the regulator to actually overcome some of these issues.

MS. NATHAN: Along those lines, how do you think U.S.-registered SDRs should meet the indemnification requirements of Section 21(d)(2)?

MR. OKOCHI: Well, that would entail every provider of data to the SDR indemnifying each SDR, so there would have to be a legal contract negotiated with each data provider. And presumably, they would have permission to present that data to the SDR.

MR. MASTERS: Yeah, I think this is an important issue. And, you know, obviously the indemnification standard hasn't been determined. But clearly there's global interest in data and repositories. And, you know, they're not restricted by national borders in terms of these markets. They are global markets. So, you know, security underlyings, U.S.-issued securities may be referenced in credit derivative transactions. They may be between two European participants. The SEC would have an interest in that dataset. But that dataset is really a European one by domicile of those participants.

You know, reciprocally, there's European situations where U.S. firms will be trading on European underlyings, and Europeans will want that data. So this indemnification issue is important.

You know, like the -- at DTCC, you know, currently we're pre-legislation this regulation in this regard. We are actively sharing data throughout the globe. We have a set of working standards that we've agreed with the OTC derivatives regulators forum for that sharing and it determines different types of regulators and potentially different interests. So certain information that is systemic risk data that is shared in aggregates within certain jurisdictions, their interested in some of the more significant financial institutions in those jurisdictions, but also people who are writing contracts related to those financial institutions we share in aggregate. To prudential supervisors throughout the world we will share data from their regulatees and to markets regulators we will share data relating to the domicile of the underlying. And the parties where both parties -- or one party's within the market domicile for that market's regulator.

Now, you know, what we've done at DTCC in part to manage, you know, a number of issues, so there's issues -- you know, clearly there's a sense that -- from other countries that data needs to be resident on shore. There's some of the privacy issues that Thanasas referred to. And there's, you know, this indemnification issue. So, you know, as a repository, where we are today is that, you know, we have a European entity as well as a U.S. entity. And, you know, we intend that the European entity will share data, you know, locally to those regulators and will use, you know, the U.S. vehicles in the U.S.

So, you know, there are some things that can be done via the repositories to, you know, manage some of those issues in terms of their corporate structure. But I think, you know, some of the real test is to -- as to the indemnification standards (inaudible).

MR. TUPPER: This is Bruce Tupper with ICE. I think this topic would be a great one to engage the standards bodies, especially energies (inaudible). There's a body called the Contract Drafting Committee that resides in the EEI and it's composed of mainly industry attorneys. I would recommend the Commission work with that group to pretty much detail what is that indemnification agreement and how to -- you know, the topics that were mentioned earlier with jurisdictions.

In energies, many of the participants will create separate entities obviously by location. So especially with large majors and financial institutions they'll create a, you know, U.S., London, and Asian branch, and each of those will actually be legal entities that they confirm their trades under. So there are arrangements in place how they share data and how they interact. And I think formalizing that with this Contract Drafting Committee would be a great start.

The implementation agreement, and I just speak quickly about a similar issue we had where we needed to implement kind of a multilateral agreement so customers would recognize electronic confirmations. When we began in energies eight years ago, there really wasn't a provision for that. So we worked closely with ISDA and industry attorneys to develop an annex-type agreement that was multilateral. That works very well in energies because of the just number of participants. So then once this agreement's actually legalese is defined and everyone's in agreement with what they want, the actual implementation of that should be done via a standards body and be multilateral in nature. I think that will lead to very quick adoption of the indemnification terms.

MR. PRITCHARD: It's Raf from TriOptima. If I could just echo some of Thanasas' and Stewart's points. Obviously the financial data, it's very sensitive and especially when a large amount of it is aggregated into one place. And as a commercial provider of central service to the OTC swap market we've, over the years, had to balance the needs for our customers' sensitivity and privacy of their data with the value of the service that we're providing. And, you know, we've managed to solve that to the point where we've got 6 million live contracts under reconciliation. And I think that shows, to Stewart's point, that technologically the security can be solved. It's really the legal question of how the regulators and the entities that want to see this data appropriately can agree with each other how to achieve that as a regulatory legal structure.

MR. SHILTS: Any other comments on that? Then we'll move on.

MS. SWINDLER: Let me move to the area of sort of the commercial aspect of the SDR running its business and, in particular, what kinds of fees, if any, should SDRs be permitted to charge for various services, and any other commercial aspects that you might like to comment on. So, DTCC's model's relatively simple. We're an at-cost utility model and our, you know, our fee structure is based on the real costs of providing the service.

MR. PRITCHARD: Oh, yeah, we would echo that. I think the fee is really the service of complying with the regulatory requirements in the case of a swap data repository. And really as a service provider our goal would be to fulfill the requirements from the industry and the regulators on the swap data repository on a cost-based fee charge. And I think the balance that we found is that some sort of relation to the amount of live contracts that a party has for the basis of the fee strikes a reasonable balance.

MR. SPATT: I think there may be some delicate kind of issues in this context, particularly if there wind up being competing swap data repositories. It does seem to me fundamentally it's going to be an awkward issue for -- this is an awkward issue for regulators because I think traditionally regulators don't really want to be -- I think financial regulators have traditionally not wanted to be in the price-setting or price-fixing business. And, you know, on the one hand, I see real advantages to there being -- at least in specific spaces -- single data repositories for particular asset classes. And there was earlier discussion about this.

But then also keep -- and I think that probably is a desirable model. But then there are pricing issues that the financial regulators are going to need to confront as with other utility and monopoly kind of models, you know. And I think this is an important issue to highlight because over time, you know, the business of exchanges, for example, in other spaces has become very different. It's become -- it's not become kind of a business about collecting -- specialists kind of making money by doing trading themselves. It's been -- these businesses have kind of transformed themselves into data businesses and into businesses with different kind of products and specialized kind of products.

So I think there are other kind of issues that one will need to think about with respect to what are the ways in which the swap data -- what kind of swap data repositories do with the data beyond the functions that you specifically will mandate them to do and that you obviously want them to do per the statute. Can they, for example, forms of their data as value-added products to selective buyers? I think these are real issues with a lot of economics involved. And, well, they're not sort of directly on the radar screen today.

You know, I think as the staff sort of

introspect about the history of platforms like the New York Stock Exchange, for example, where these issues became -- and in equity spaces where these issues became more and more important over time, I think the analogies to this context are potentially important ones.

MR. DIXON: If I could. Mark Dixon, Evolution Markets. Just to build on that point, it raises the real question, which is who owns the data and, therefore, what you can do with it. Is it the market participant licensing the repository for its purposes? And so I think it gets very complex.

And I wanted to build on one other point from an earlier question, which is as we get into cross-border discussions around security and access control, the data that is going from one host station to another shouldn't go to a lesser standard or lesser quality. And I think that's something that we need to ensure remains at the highest level possible.

MR. DIPLAS: If I could follow up on

what Chester mentioned. We had thought long and hard (inaudible) the actual model for the SDRs. The market even before the legislation came into existence had made sort of selections of asset classes such as credit rates, et cetera. We had gone down the utility route because we wanted to ensure that -- because it is a fundamental function that we thought we should not be necessarily subject to competition, and it was done as a Request for Proposal. But there are other elements off the framework that we thought are actually important to be opened for competition. For example, execution is in that realm; clearing is in that realm; et cetera. But the repository function is one (inaudible) that should be centralized. It should be done effectively at cost market participants. Now I think even more with the legislation being enacted and having the requirement to have it there, it makes it even more important that basically market participants will be subject to a monopoly type kind of conducive environment. And I think that clearly the model works very well in that respect.

MR. MacBETH: Yeah, I don't think, you know -- I think a lot of the comments are very valid, right. We don't, as DTCC, see that we're in the business to try and commercialize the data we have. We think, you know, the utility model is a good model. We talked about fragmentation earlier. So this idea of at-cost seems to come with the recognition that this service shouldn't be overly fragmented. And some of the decisions, you know, we made in our corporate history have involved us, you know, preserving some of the services alongside the repository that we think, you know, are a horizontal offering and not, you know, really benefit from a level of scale and fit very directly with the repository offering and some other services.

You know, people may know this, but the original service started as a confirm service that also had a disassociated centralized database. And we've, you know, separated that confirmation service. And that now operates in a more competitive landscape, you know, separately from the repository and the repository can sit there more as, you know, as a utility offering.

MR. SCHOTT: Mark, you mentioned the question of who owns the data and, Stewart, you talked about commercializing the data. Are any of you that are likely to be repositories, do you foresee any use that you think you would make of the data or would legitimately make of the data without the permission of the data owner? Even if it's sort of aggregated and so forth where you're not revealing parties, but any use at all.

MR. OKOCHI: Well, I think, to address your point on in previous points, one, I think to induce market competition by allowing any party to register, whether they get approved or not is up to the Commission. But I think allowing for competition would help level the playing field in terms of pricing.

In terms of the actual data itself, I think one of the goals of the reform is to allow more transparency and efficiency in the marketplace, and probably some of the criticisms of the over-the-counter derivative markets in the past have been sort of behind the black curtain. So I would have thought that having some way to publicize the data, whether its', you know, ticker-type approach as to what, more recent trades or high, you know, last trade volumes, that sort of data that you currently can get from the exchanges with you have the benefit to the public and to the marketplace.

MR. TUPPER: In regards to data, what we do, basically, is Egland Energies is, is there's not a lot of commercial value to the data, okay, so we confirm about 25,000 transactions a week.

Really, the only commercial value I really see is used, when you're dealing with this number of participants and the diversity of technical expertise, if you're really getting down to the point is how quickly can these participants submit the information to you. The value really is you're looking at real-time data, end-of-day reports. If that data is not received or typically is not quick enough into the system to them be crossed, so it's really not a system issue from a central provider but really receiving and translating everything.

So, really, the only values we're really seeing with the data is for Energies really is the bid week data and natural gas. They're doing an assessment over the -- for all those who aren't familiar, they're the last three trading days, and then the following month you're able to add to any type of indices for first of the month natural gas indexes.

Really, short of that, I don't really believe there's going to be a lot of commercial value with NSDR for Energies.

It really -- we haven't seen that at all. I think as far as -- just take a step back -- I know we did talk a lot about security and how that's done. I know there's a lot of standard processes in the industry, I think really just formalizing those and making them very transparent is probably the best way to go. You know, we follow a very rigid security process because pretty much everybody at the table here does. We make available our audits to our customers.

I know that gives them a lot of comfort, you know, so they can actually see what we're going and what we commit to, and then the results of those audits. I'd recommend that as well.

MR. SCHOTT: Steward, you mentioned that DTCC has sort of formed a separate Reval entity for some of the services you provide. Is that a model that others agree is the correct model?

MR. MACBETH: In just a -- I guess the one thing I would say about it again, you know, we positioned the warehouse to be this open access vehicle. So, you know, we want, you know, wherever a kind of execution happens or the legal wrappers have put around trades, events how we'd like to source trades.

To the extent we can, you know, comments about the cycle of copper records, the ones that can't be further described electronically, but again, you know, we'd like to see those prematched up from in some electronic form fairly early in the last cycle. And so, you know, this is a little bit refers back to the confirmation point.

But the other thing we're doing, you know, the other part of our model is we allow our users to permission the data we have for use, so, yeah, there are -- there are, yeah, for example, we have a feeder data to TriOptima, all right, which exists in their portfolio rec service. So, you know, so that's the other thing. So if our, you know, if our users want us to provide the data to another service, you know, we will do that.

So, you know, we are trying to position ourselves in this, you know, open utility position to have, you know, a fully set of services a little bit. It started with my name, but the question is to everybody else.

MR. SCHOTT: Yeah, the question might actually be sort of to others. Is that the model that should be followed, or are other models equally acceptable?

MR. DIXON: This is Mark Dixon with

Evolution. I would say with absolute certainty there is a potential for commercialization of the dataset. I would also say that you could have cooperatives such as Steward's suggesting wherein this can be done at, we'll call it, at cost, wherein the participants who are providing the data and license that data for its own purposes or for other purposes to meet regulatory obligations can be done in such a way that you don't have this runaway model that somehow stiffens [sic] market activity.

But I would say that something's going to have to be looked at very carefully, so I think the market participants are going to take the view that it's their data. The repository will probably take the view that its data. And so, you know, therein comes the rub.

MR. SCHOTT: Yeah, I'd agree with those points. I think, as Jiro mentions the interoperation point, and I think that's a worthwhile example to mention that with the correct legal framework, then data can be exchanged between venues for the benefit of the mutual subscribers. And there's some strong examples of that. We exchange a large amount of data with DTCC, and that enriches the exposure management and valuation that we're doing. In terms of separate legal entrys, we'd be receptive to guidance as to if that's the best way to proceed. I think as a commercial service that has built an exposure management service, really for us it's about balancing, delivering value to the subscribers to the service alongside with respecting that it's their data that we're working with. But it's really the value that we deliver justifies them submitting it to us and having it aggregated and getting the value back on it. And so it's really delivering that value that has enabled us to assemble that, that data and to see the six million live contracts.

MR. SPATT: So I think -- I think another related facet that strikes me as really crucial with respect to data is who's going to be the recipient of the data. And, you know, we've kind of -- we're kind of circling around this issue a little bit. We kind of have in mind, I think, kind of a couple of alternatives. The legislation clearly is most directly focused upon the CFTC, the SEC, and the Federal Reserve, et cetera, with the government financial regulators as being the downstream recipient of all the data at least in key forms that come from the swap data repositories with the exception perhaps of some simple aggregates being made publicly available.

And, clearly, with respect to what's publicly available, obviously there's issues about confidentiality and the like. But it also seems that there are potentially categories in between, you know, in some of the discussion about the value of the data and the possibility of value-added services, it sort of points out that there might be categories of data that might be in between that interested parties -- maybe asset managers or certainly the financial intermediaries might be very interested in.

I think also the ability to provide the data, there's a kind of a whole other dimension as well, which is the ability to provide the data to the public. Potentially, that increases with longer legs, or you can potentially provide more -- this type of data might be more and more relevant to provide to the public with longer legs. I think sometimes the vision of collecting the data is that the data is not only going to be provided to the government officials, and in some ways that might not be the only way to try manage systemic risk.

One of the real problems that we had in 2007 and 2008 was, arguably, some of the officials charged with the responsibilities, you know, didn't, you know, have difficulty separating what was systemic risk from what wasn't systemic risk, and there was sort of almost no information that was sort of out there about underlying mortgage exposures to the investing public. And I think one of the ways in which the government officials can be helped is by providing more information to the public to the extent that it can be. This was one of the severe problems in 2007 and 2008.

You know, there was a period of about a year where it was completely unclear who was holding these underlying mortgage exposures. People knew in the aggregate there were exposures but how they would distribute it and what the systemic risk implications of this was completely murky.

So I think there's a number of aspects about data. I think it's not simply about what in the most aggregated way might be public versus, then, what in an obviously and all the detail would be made available to the official -- to the regulators, but also, then, how over time, especially with some reasonable lags what could be provided.

CHAIRMAN SHIILTS: Okay, just is there one more -- anything on this? Make it quick so then I can move on to the next.

MR. GOOCH: Sure. I kind of feel like everyone's avoided answering the question that Sebastian originally set.

Say, to make clear in my view, is that

(inaudible) by the participants, and therefore SDR or conferences, or anybody else should only be disclosing information for one of two reasons:

The regulations required it, or the participants gave permission for it to be disclosed. I don't think there is any sense we should -- ownership should move in the sense.

I agree with Chester some of the information has valued. I think the post-trade stuff is truly doesn't have a great value in the sense you could charge a big, big fat fee to sending out to people but it has value to the public, in that it was sheared of weekly in the CDS data. I think that's very healthy for the public, very healthy for the health of the markets, even though, frankly, poorly done would pay a lot of money to receive that fee if it wasn't publicly available.

MR. DIPLAS: Yeah, very quickly, as a user, I wold agree with those comments. We believe the data is ours. We pay for the storage in that environment, and we need to work obviously with the regulators in terms of what is the appropriate sort of data to be disseminated to the public for those system risk reasons that Chester mentioned.

CHAIRMAN SHIILTS: Thank you. We'll go on to the next question.

MR. SCHOTT: But not before thanking Jeff for the last point.

So we're going to switch gears, but this will dovetail with something that Chester was mentioning. The Commission's use of the data and one of the statutory requirements is that SCRs provide, quote, "direct electronic access" to the data.

I would just like to hear some thoughts, especially again from the potential SDR's perspective, how do you envision direct electronic access? At a mechanical level, what does that mean? Is that reports from you whenever we want it? Does it mean that we have direct pipe into your systems with our own interface? Does it mean that we have access to the very tools that your own staff might be using? How do you see that working?

MR. OKOCHI: Well, currently, we've provided similar sort of access to auditors of our clients, the Big-4 audit firms, and we get permission from our clients to -- and we get requests from our clients to allow them access. So the way that mechanism currently works could be passed on postreform. So, basically, you know, if you get read-only access, (inaudible) access, so easily to access from here in D.C. or by the EC in Europe, you know, our vision would be to provide specific reporting that would be tailored to what the regulators would want to view in terms of large positions, potential risk, et cetera, but then allow flexible reporting to slice and dice all of this data, this comprehensive data the way the regulators want to look at it.

So I think there needs to be that combination of, you know, templated reporting that all regulators are looking at as well as if related to real time, or at least on-demand flexibly analyze this data.

MR. SCHOTT: You may have said this, but just to be clear, before you give it to auditors the access you provide is, are they creating the interface that they see your data through, or they using your own interface?

MR. OKOCHI: Well, we're, you know, we provide an interface so they can log in, you know, through Internet Explorer and quickly access trade detail to comprehensive reports, to stress testing and those types of analytics. So it really is more of a solution, not just a data warehouse.

MR. MACBETH: Yeah, and I think the answer is, is all of the rule of the forms are and admissible ways of getting data, and you will need an inflexibility in accessing data, then. Like, you know, we've currently got as far as commissioning regulators through a web interfacing some scheduled reports, and that's as, you know, as far as we've got. But, you know, we certainly envisage it going further, and we envisage giving you, you know, defined, clearly access.

One of the problems, you know, just roaming around our database a little bit is you have to understand the data.

So, you know, like, it needs to be formatted and, you know, fall back to you in a meaningful way. A lot of the record, you know, again, right, we, you know, we were trying to receive the whole audit trail associated with the trade, it's whole life cycle. Yet not every version of every message we've got is valid to any point in time. So sifting through some of those issues.

And to deal with the audit trail we have in our system, you know, you probably need some support, you know, from us and our side of the rule data. But, you know, I think we still imagine that you will be able to receive that data electronically and manipulate it, you know, yourself and potentially directly clearly. But there will still be something outside just to make sure the data, you know, comes to you in a clean and sensible manner.

MR: PRITCHARD: Um, yes, from TriOptima's perspective, we'd agree with those comments, I think. We built our repository industry, repository service out of our exposure management service and to the requirements that were given to us by the industry and the regulators in conjunction. So requirements would be really valuable to start off with.

But I think, you know, fundamentally, the model that we based it on, assuming that the regulators had access to the raw data, the line-item-by-line-item data, that's one level; but also I think the systemic risk-monitoring point some -- from page where you can actually see the highest level aggregation is going to be really valuable. And then in between those two the opportunity to filter and sort and drill into the data. And those are all services that currently provide on our exposure management platform quite successfully. And, as we say, with some guidance about the requirements I think we could be producing some quite interesting opportunities to get into the data in more detailed level.

MR. TUPPER: This is Bruce from ICE. I think it is a fault to access, based on meetings we've had with the DMO over at the CTCC, we heard a lot of feedback in regards to aggregation of data. So, I mean I believe creating reports from the front end, and giving the Commission access in how they'd like to see it, that's a pretty simple task I think can be accomplished by probably -- there's a competency at this table to do that.

I think the big question is aggregating the data amongst energy clearing houses and also the OTC data. Is that a responsibility that the Commission wants to have, or is that something of the repository? Because in order to get that holistic view, you know, there is a lot of clear transactions that have been developed out of the OTC market over the past six years. So, you know, just take natural gas for example as a number of basis contracts that, you know, were never cleared.

They had high liquidity and then

obviously the clearing houses created their list of liquidities and started developing those.

The way you're going to want to view that, you know, it would be easy enough to create your report that would just show you what is the open interest of the basis contracts at a particular point, but now you have to deal with you also have open interests in two different clearing houses. So that effective netting of the three, you know, how you want to accomplish that. I heard that regularly when we had meetings with the DMR, and I want to achieve that. It's a question of whether the systems are here to do it or that's of a duty of the repository for us. It would be a pretty straightforward thing to take in and aggregate, because that's what we do today.

But that's not difficult. So I think that's a big consideration. I think whatever ends up coming out of it, I just would say working with the staff who's going to be using these reports and helping them develop screens and interfaces, that would help them achieve their job, this probably would solve that.

MR. GOOCH: I think one thing just to keep in mind with this is, there's a big difference with the information in data, and we need to work as we'll see information that's actually useful to the Commission as to do their job.

I want to give you sort of an order of scale, a minimum of labor we do about 20 million transactions per year through our systems, which presumably most of which would be of interest to people around this table. The audit trail for the interest rate market alone is 80 million records, which is what we hold.

We don't have quite everything so that there's a few that they list towards -- I've seen enormous amounts of information, and when you look into that, an awful lot of the activity in the market does not result in price-falling events. It's new with as to clearing houses. If trades that were done ITC subsequently cleared, trades that were compressed with the (inaudible) tomorrow.

Others, there's a variety of things that happens to trades, to the life cycle which is important to understand, and I think we can do a much better job at saying, okay, what type of information is used for what purpose and finding why the extracting lapped. It's all technically doable. I think you around this table can do it. It's not just a question -- I think somebody will see it and think it's a question of having six million compositions or 20 million transactions or whatever, whichever number everyone's holding and handing them over. It's a little more complex than that. It's solvable, but there's real work to do.

MR. DIPLAS: I think Bruce highlighted kind of the issue of what happens in the fragmented infrastructure between ODC, different clearing houses, et cetera, and the need for, I think, I would be guessing that they're not a class level.

I think that that is fundamental, and

the problem that Jeff highlighted, of course, is still you're going to have an issue with too much information not too little information, and actually trying to use that in a way that you can get something out of it is fundamental. Obviously, and also your own needs as regulators note, you need to leave. The systemic-risk issues are different; they're relying much more on the intelligent aggregation, but the market surveillances are completely a much more granular task. And the repository has to be able to provide more, basically.

But I want to highlight a lot of the system-risk issue. The intelligent aggregation is the most fundamental point.

MR: PRITCHARD: I'd just like to pick up on what Jeff and Sebastian said. Jeff made an excellent point. There is also as well as getting the live contracts that you're saying is the time dimension, that's the history of all the previous submissions that you've had and providing a reporting access to that. In our experience providing an exposure management service, that's been one of the most valuable features that the subscribers have benefitted from is the ability to see the state of the transactions on previous dates and graph that and watch that other history. And so that's another extremely important dimension to the requirements, because once you start accumulating this data on a regular basis, you just develop more and more needs for reporting. And that's one of the values.

But it's also one of the challenges is just to satisfy those requirements.

MR. DIXON: I would echo that on the data retention that that's going to grow as a challenge over time. I would also suggest that once the Commission's decided on what they need, then it becomes a little more straightforward for people to provide complete, accurate, timely, and, more importantly, actionable information. Otherwise, you're just caught up in a mire of data that isn't actionable. And you can also start to raise questions around the integrity of that data, and that becomes a distraction from the main effort, I think.

CHAIRMAN SHIILTS: Any more --

MR. SCHOTT: Thank you.

MS. SWINDER: I'd like to move on to one of the core principles identified in Dodd-Frank, in particular governance.

I'd be interested in your views as to governance structures that might be appropriate with a view to giving full access to market participants.

MR. MACBETH: So DTCC's model is a user governance. You know, we certainly thing that makes sense in the environment that we're in and for the services we're providing. Now, some of that needs some kind of diversity as well in terms of the wider public interest, and they also should be represented, and, yeah, the main board, DTCC has some independent board members, and it has, you know, buy and sell sort of members. And that's the, you know, the structure that we would advocate.

MR. OKOCHI: Well, at Reval we have actually currently put in place a chief compliance officer with pretty extensive experience in both the derivative marketing-making experience and, on the buy side, his current path would be to report in to independent board members of Reval.

Actually, I should also add that in addition, that additional governance, there are certifications like a SAS 70 Type II where an external audit firm can come in and audit your controls and processes around how the SDR is, you know, functioning that can cover, you know, a wide range of processes from the data verification to evaluation. So I think that's another aspect that could be considered.

MR. COOK: Can I maybe just to amplify the question a little bit, because we -- they had a whole, another roundtable on conflicts in governance with respect to SAS and clearing agencies, and spent a lot of time talking about the nature of the conflicts that could arise that might inform our policy choices about what types of government structures to promote.

So my question, I think, to begin, but you don't answer the question, is what are the policy issues here around governance that we should be taking into account? Are there the same types of concerns that there are with the SEFs and the clearing agencies, at least as drivers of the requirement that we study that issue under the statute? Or is a data repository a different animal?

MR. DIPLAS: I would think it is a different animal. I mean we haven't seen this type of conflicts. I mean I know that a lot of conflicts have been mentioned with respect to (inaudible) CCBs, but on the report story, especially being around these utilities, we have not had any issues of conflicts, and I think the model has worked well with the users kind of participating in that respect.

But we -- definitely, it is open. It's mandated by law for it, but to actually put the trades in there, and they don't even have the right to, I think, to turn anybody away.

So we have not experienced this type of conflicts before, and I don't expect to experience in the same way. For once, it might be an easier situation.

MR. TUPPER: Yeah, I'll echo that. I believe it is a different animal when you look at the nature of a clearing house versus that of a swap data repository processing post-trade events, you know, the conflicts of interest that you have on an SDR really are much different than that of clearing house.

I believe the earlier panel members pretty much said, you know, usually you'll create a governance board of your participants. Some type of procedures got around that with restrictions around how that could be changed, and then, obviously assess 70 Type II audit afterwards. That process has worked well for us for eight years, and, you know, if a customer does want to make a change, obviously it requires a majority of users to agree that process had been a change in the audit, and that everybody kind of sees it.

So I think the self-governing kind of governance structure for SDRs has worked well in energies. We could formalize it with the Commission, but there hasn't been any issues today with it.

MR. MACBETH: There was a -- the main comment is that the rules are relatively prescriptive in terms of better share.

So, you know, I think that is valid. But there was earlier a conversation about commercializing data, and, yeah, although it's a lesser dynamic, it, you know, if that were a dynamic, that does have, you know, some degree of --

MR. SPATT: You know, I'd agree. I'd agree with that, too. You know, I think my inclination is the same as many of the panelists that it's not obvious that there are going to be severe governance problems here. But, you know, at the same time I think one also wants to be sensitive to the possibility that government problems might arise. I'm not suggesting being overly prescriptive with respect to how this issue is approached, but I do think that the analogy to who a clearing organization is not completely inappropriate. One of the issues here that we discussed earlier was the importance of the swap data repository dealing with nonelectronic data that comes in, in the context of a customized contracts. Now, one could imagine issues about the pricing for dealing with those versus dealing with the cleaner, smoother, electronic data where, for example, quality, just like in the context of clearing, there would be kind of competitive issues, vis-a-vis the dealers who would be competing on the customized margin the same -- exactly the same economics it seems to me to be at least potentially apply.

And I think that could -- that, at least in principle, could be a context in which there is a first-order conflict.

Now, I don't want to overemphasize that, but I think at least it is possible, certainly, that there would be -- that there would be real governance -- that there could be some governance conflicts.

MR. GOOCH: I think a lot depends on what the other rules have SDRs. I mean maybe I'll be able to sort of more or less conclude it that SDRs as covering visage don't present major conflict of interest issues. But that's largely because they're talking about a utility, not for-profit model. We're talking about open-access model. We're talking about something that's unbundled from other services. We're talking about a data service made available because for users' sake can be altered if the regulations require it. If those things are all there, then I think the SDRs are probably relatively safe in terms of conflicts.

If you imagine a very different world with for-profit SDRs, bumbling (inaudible) without the commercial offerings, certainly, and to the data may you would have issues. But I think, you know, it's probably best not to have (inaudible), and have both fixes, but if we go to them, you know, the things we talked about earlier on, then that probably gives you quite a lot of guarantees.

MR: PRITCHARD: Oh, I can say from TriOptima's perspective, you know, our expenses are commercial provider of our exposure management system, we've obviously been totally relying on satisfying the needs of our subscribers. And so they've had a strong voice in the way the (inaudible), but since we've operated the interate trade repository, we've organized that with a governance committee from the industry alongside the regulators, and as we're regulated in Europe, we have a compliance function there, too. And I think we've succeeded first of all to implement the regulations and the rules that are written there, and then to take that forward.

I'm just at Chester's point. In our exposure management service, we already are reconciling between the parties to the trades a large amount of those exotic and nonelectronically confirmed trades on a regular basis, so we have a successful experience with that, also.

MR. COOK: Can I just follow up on Jeff's point quickly, because I think it's an interesting question in and how the fees relate to it in our model of -- what do we have in mind?

What are our assumptions about the activities over the trade repository. And in some ways I think you were setting up a choice that you could worry a lot about governance, or you could restrict the activities of a repository to unbundled services, form a utility model and the like. And I want to make sure I understood you correctly.

MR. GOOCH: The thing that I was supporting, but I'm not saying one company can't do both, and (inaudible) giving the example where he runs both models side by side with some separation of governments and structures. I think he didn't say that one company can't do more than one thing, but I think he didn't say SDRs are sort of a mandatory thing in terms of the regulation.

And then you have to preserve protections around them in terms of making sure that they don't abuse that position.

I think some -- you either go down the government's route, but the government is kind of a blunt instrument fix. Some of the problems I think are (inaudible) on conflicts in terms of their (inaudible) is probably a safer route to go down.

MS. NATHAN: I'd like to go back for a minute to Jiro's comment and to the last question. Reval has a chief compliance officer, presumably, with enumerated duties. SDRs would be required under the statute to designate a CCO, and I'm wondering if the other panelists can discuss any specific regulatory functions that you all believe a CCO might perform or oversee.

Or not.

MR. TUPPER: Uh, I mean that role, we have a person who does that. There's a -- it's kind of an executive role where they overview our processes. The role, typically, I'd say it's a person who manages the SAS 70 Type II audit that was mentioned earlier. So you going to work with the Commission and the participants to draft the procedures that are acceptable to run an SDR, and then managing that, that audit process thereafter, and working with the auditors to make all the statements and then follow-up validation that you're doing what you said you would do in your audit.

I think that person also could liaison with the Commission as a follow-up of any needs or requirements that they would want in that audit and just give assurances. I think anyone who's operating this type of service, you know, it gets to be current to continental exchange. We offer a lot of exchange services. We operate the eConfirm service in a very independent manner, separate staff, the SDR, the hardware is its own, nothing else runs on it.

The developers, if you port the access to the data only works for this SDR. You know, there's this -- I don't want to get too granular, but there are certain procedures I think that are practiced that you would want in that audit. Things that may come out of the rulemaking process would have to also be added as well.

MR. MACBETH: And so, you know, we are a regulated entity, so, and we will at least find our in-compliance officer, KYC-ANO we have a, you know, a customer base we do that with, and they're very interested in the governance model, and the GTs of the various structures within our organization, so the board responsibilities, the executive management responsibilities, some of the connectivity between them. And they focus on this issue, so, you know, how we've documented and managed our processes and, you know, and clearly they actually engaged, took me to a regulator.

MR. OKOCHI: I think I'd just like to add some of the other reasons why we think -- some of the other roles that the chief CCO could have with the -- to help evaluate all of the trade that don't make it into the swap data repository and sit on the Commission's desk to figure out is there a process -- what is the process to get those trades into a swap data repository? So it's going to be, obviously, all of the uncleared trades and customized trades that, you know, could grow over time.

There's another section in the Frank-Dodd bill that -- the Dodd-Frank bill that has the SDR's responsibility to check on the end-user clearing exemption, so I think that again is another detailed process that the chief compliance officer will have to work with the Commission's help to understand how to vet that process.

MR. SCHOTT: Let me follow up a little bit on that and borrow a little bit from our sort of models that exist in the futures exchange world. We sort of have the separate compliance departments. There's usually an executive in charge of that, and they're sort of -- they're not a silo, but they're their own organizational group within the Exchange.

Do you envision that a CCO or an SDR

would be something similar that they have sort of a staff, and that they are their own sort of center within the SDR? Or are they more one or two people who are sort of, you know, managing conversations and relationships with outside groups.

MR. OKOCHI: I think it would be very difficult for -- well, if you're going to be chief, it implies you have somebody to be chief of.

MR. SCHOTT: All right.

MR. OKOCHI: So, yeah, I think there would be a staff that would help, you know, with the day to day. I mean it's going to be a very important and big task to, you know, help govern all these trades whether it's, you know, one SDR per SC class or multiple. I think it's pretty challenging.

MR. SCHOTT: But it wouldn't be just sort of outside, for example, your auditors you would use, that you were working with. You would envision that there is a lot happening in house in terms of monitoring or verifying compliance by the SDR with whatever obligations and nothing imposed.

MR. OKOCHI: I don't think there is as much importance to trade that Chinese wall and separate the duties so much since it is post-trade, as other panelists have mentioned. But again I think there should be some pretty strict and clear guidelines as to, you know, what the compliancing can do with the data, access to that data. So, certainly, some separation on that front.

MR. GOOCH: I think there is two different sources of compliances that we need to think about. One is SDR is a regulated entity. We'll need to have a compliance function.

We should be independent. All the things that any finance institution or serious market infrastructure has to date, certainly has marketSERV that would regulate to the UK, for examples, however, a compliance officer and a weekly compliance meeting, and we have endless policies and rules and regulations about things and all that kind of stuff we think is important.

I think one interesting question you get into is if the new regime is going to work effectively, who's ensuring the industry itself is compliant, in the sense that if someone doesn't report a set of trades to the SDR or misreports them, what happens with that in terms of follow-up, ultimately, and who levies fines on the individual participant that go back to the Commissions? In other markets, obviously, it goes back to an SRO. The things with the very serious questions that are around, I think just have the SDR manage itself, but then how does the whole framework manage itself, and, you know, who's having those functions? I'm not entirely sure the SDR should be the SRO, but when you think about how they interaction with work, and that's probably something more complex to set up.

MR. SPATT: Yeah, and I think, you know, it would be, to follow up on Jeff's observations, I think the issue of the scale of this function is going -- it depends, obviously intimately, on the responsibility if it's simply the compliance of the swap data repository with respect to its own rules, kind of in a relatively mechanical level and interfacing with the regulator, that might suggest a need for a relatively modest staff.

If on the other hand there's a more activist role with respect to either upstream kinds of issues as from the SRO in one extreme, or even to deal with those -- the nonelectronic orders and making sure that these are being handled in the appropriate way, that could suggest, you know, again significantly more staffing kind of need.

So I think the scale of the staff of the chief compliance officer would depend very much upon the model of what is the role with respect to those kind of issues.

CHAIRMAN SHIILTS: Okay. Well, let's move on.

MS. SWINDER: I'd like to go back to the issue of other duties or responsibilities that an SDR might have that might need to have that aren't necessarily set forth in Dodd-Frank, and, in particular, your views as to whether SDRs should have a market surveillance function.

MR. GOOCH: I think a little bit there depends on how you define market surveillance. I'm not trying to avoid answering the question. I think in terms of generating reporting to monitor the market, I think given the earlier comments we had about the amount of data that were out there and the complexity, I think it will (inaudible) to create the right reports to spot things.

Market surveillance is about more than regional reports though. I think a good market surveillance department is investigating issues, looking at market rumors, everything else, and that's where I think this question about does the SDR do that, does the CFTC and SEC do it, is there some SRO that does it? That's the only thing that needs to get decided about how that follow-up works. I think if you read the act, it would sort of imply the commissioners are doing that themselves, in which case the SDR is very much providing information to support that function rather than launching its own investigations, but, well, I just think --

MR. PRITCHARD: I think that when it gets to market surveillance, going back to the original point about an SDR having a comprehensive view of all the trades in the OTC swap market, that's one sort of approach from the point of view of developing a software service to cover that. Market surveillance, on the other hand, tends to be asset class specific. You're going to end up looking for specific things in specific asset classes, and so it's somewhat important to be clear, and given SDR a set of functions that are cohesive and providing comprehensive reporting across the whole of the OTC swap market, all asset classes and all instrument types is one value, and then providing market surveillance, which could get into different things meaning different things to different asset classes, because there are some pretty diverse asset classes within the OTC swap mandate that could end up a rather broad mandate for a repository.

MR. TUPPER: I think at ICE we really didn't view the SDR as being a policing function for the industry. I think we, you know, agreed in reading Dodd-Frank you look at the duties and it seems like it more or less provides the facility for, obviously, the Commission to do that. I can say today in energies I don't believe there's any expectation that the procedures and rules of the SDR would have a market surveillance aspect to them. I think, though, that the energy participants do expect it. The SDR would provide the Commission with that ability to view that data and make their decisions on, you know, what's happening in the OTC market. So, obviously, having a robust, you know, regulatory functionality within the system would allow the Commission to do that. But it can speak -- there really aren't any rules or procedures in place today at least for energies market that you could build on. It really isn't there.

MS. SWINDLER: Yeah, let me just

qualify, because perhaps my use of the phrase "market surveillance" took us in a different direction than I really intended, because Dodd-Frank refers to monitoring, screening, and analyzing data. And that's really what I was trying to get at. So, if you could speak to whether you think that's an area that SDRs should undertake some obligations and if so what is your view as to what that means?

MR. TUPPER: Yeah, to summarize --

MR. SCHOTT: If I could add -- because that same provisions speaks to end-user exemption claims, so as part of your answers if you could just also give your opinion as to specifically that function and what you see as the SDR's role they are in terms of monitoring those claims.

MR. TUPPER: Okay, so the first part -- I believe I kind of summarized that -- would be pretty much providing this regulatory functionality or user log, and that would have all these reports that provide the Commission with that ability.

The end user -- that's an interesting one, especially in industry commodities, because there are -- there would be effectively, I believe, a lot of participants seeking that category.

Today, a number of our customers are what I'll classify as end users, or they make up a high percentage. Many of them do use the service or what their -- they seek a lot of benefit with electronic confirmations in general. So, if you start to say why would an end user use a confirmation service, to them it's -- you know, it's a reduction in back office costs. You know, they can leverage a lot of the technology that the large dealers use already, and they can receive their confirmations electronic, so it's quicker, and there's just a general efficiency garnered from electronic confirmations.

How that's going to work with the Commission as far as these requirements to continue to use the system I think would need to be, you know, evaluated. There is a significant number of price -- there's a (inaudible) price discovery, especially in certain points where there are a high percentage of end users, which -- that would take it out of the equation, may make it a little more difficult to realize what's going to happen in that particular delivery location or that market. So, it's going to be a balance as far as the requirements for all end users to, you know, report. I think there's a lot of ways that the industry could leverage technology to help them report. I think a lot of them don't have the sophistication of many of the other asset classes. So, it's going to be a balance.

MR. OKOCHI: Well, I think the question really is: Is it up to the swap dealer of major swap parts who've been providing the data to also provide data that verifies that the other side of the trade qualified for the end user exemption is not a financial entity hedging commercial risk, or is it up to the SDR to go out and get that information. You know, the way the Bill is currently written, only one side produces the trade, so if the SDR is tasked with, you know, matching, confirming the trade to the details of what was on the other side of the trade as well as the end user exemption, then it would go beyond just collecting the data. We would have to have access to the counterparty information, speak to the counterparty, and confirm that they indeed qualified. So, you know, it would be quite a big additional task if that was the intent.

MR. PRITCHARD: Yeah, I think -- getting back to the fundamentals of it -- following the rulemaking, the SDR, from a technology perspective, really is receiving all those line items of data and providing reports back to the regulators on it, and to the extent that from that data that's collected every time and the history of that data, valuable reports can be produced to flag out potential noncompliances or -- then that could be a function of the SDR, but that's really the extent of it from our perspective.

MR. DIPLAS: I'm no sure, though, how the SDR would be expected to perform some of this.

Some of the information you mentioned abut the end users the SDR doesn't really have. Frankly, neither does the dealer. You can never know whether the end user really is doing this for the reason they said they did. I mean, that's sort of thing that comes down to the regulatory and that end user. It's very -- I think it's going to be an impossible task to expect either the SDR or the dealer to perform.

MR. GOOCH: I think one other practical thing is it's not true today that all repositories even know who the counterparties are to all of the trades, so I'm thinking one very basic thing we need to take care of is making sure that people can put their information into repositories before we even worry about what we might do with that information later on. That's not a stray thought to do in many jurisdictions.

MR. DIPLAS: Yeah, that goes back to the issue of the privacy law issues that we're talking about. So, you need to solve that end of the puzzle as well, basically, before you can of course do the next one, because what Jeff mentioned -- in some jurisdictions we cannot reveal the name of the counterpart without committing a felony basically.

MR. TUPPER: Just to summarize, I mean, what we see is about around 25 percent of the trades we process are -- have a dealer associated with it, so that leaves 75 percent of the deals that really are not -- you know, someone has mandated a report, so it's really going to, I think, be up to the Commission to kind of provide guidance around what are going to be the requirements of end users or non-dealers to report in order to get you the data -- to provide the dataset you'd be looking for.

MR. SHILTS: Anything more on that? Okay. Thanks.

MR. SCHOTT: This next question is -- I think I'll call it half -- a half-formed question, but as we read the statute, we see that there might be a need for SDRs to establish emergency procedures, emergency rules not only in the event of sort of outside natural disaster or other types of manmade events but really market events, and we have rules, certainly, in the clearing, in the market, and in the exchange space about market events that might require the exchange to use special authority that it wouldn't otherwise be able to use. In the SDR context, do you see a similar need? Are there market events that might require the SDR to act? What might those events be, and what sort of authorities should the SDR have in that context? And if answer's "there's nothing," that's fine, too.

MR. OKOCHI: Well, certainly, if there's another potential credit event or significant downgrade of a swap dealer on a real-time basis, the Commission may need to come in and view the data, so I think -- in a later panel, you're going to discuss real time, but if, you know, I think it's certainly a better -- bigger, better set now than it was in, say, two years ago where it was hard to even understand who had the risk. So, clearly a credit event could be one aspect.

I think the other -- you know, what is systemic risk? There's the to-big-to-fail type of systemic risk, but I think also there's, you know, regional systemic risk, product-related systemic risk so if everyone is doing certain direction in a trade and your own dollar goes to 90 cents or something -- you know, again, could be a market-driven-event. So, interest rate, foreign exchange commodity, credit, equity events could drive --

MR. SCHOTT: What would be the SDRs' unique role? What would they have to step in to do if one of these events occurs, if anything?

MR. OKOCHI: Yes, I think, you know, how stale is the data that has come into the SDR, so if the requirements for the data providers would be, you know, every five minutes or at the end of each day, I think that's one of the requirements that you would have to consider -- how frequent do you need it -- and then in the event that you need it in between, you know, the time that someone's submitted the data, then, you know, what rights do you have to all of a sudden upon all the dealers to refresh their data, you know, midday or middle of the night?

MR. SPATT: So, I think this raises an interesting point to the -- you know, I've been stricken in recent years by the extent to which in other contexts interim final rules are used when a regulator is kind of pulling out of the gate on an issue and basically, to some degree, perhaps even arguably skirting the notice and comment process. Now, clearly in the kind of context we're talking about and sort of following up on the last comments, there could certainly be situations, whether it be on the one hand actual disasters and kind of 911 types of things or market kind of dislocations. And here I think not so much about May 6 but more about what happened in 2007/2008 where there could be some needs. But I would caution -- even here I would caution that I think better -- to some degree, better rules are rules that aren't simply sort of slapped in place over some weekend or at 6 a.m. some morning, which is sort of what in various spaces happened in

September of '08 in a whole variety of financial regulatory spaces. I mean, we basically had short sales banned on huge numbers of financial stocks, which caused all kinds of adverse consequences for example.

I seems to me that what one would like to do is to define, to the extent one can -- and one may not be always able to fully do that, and I kind of appreciate that in the context of a crisis -- but one should try to step back during this type of process and try to identify what would be the types of circumstances that, for example, following up on Jiro's comments, would necessitate a speedup in the provision of data -- what would be those types of circumstances? -- and then maybe frame some parameters as to what that speedup might be. And, you know, that's not to take away necessarily all emergency authority kind of incremental to that, but I think to the extent that that's kind of built in to the ex-anti-framework, that's a much healthier system than the types of situations that we observe both at a transactional level and in a rulemaking context by the financial regulators and supervisors in 2008. So, I think building it in to the fabric as best as one can is a much better way to go, and obviously, you know, it's sort of like an -- it's kind of like an option or it's like a trigger or something like that, but I think building that in so that then that has the advantage that market participants understand, to some extent, the rules of the game in advance of that in a contingent way. But understanding the rules of the game in advance, even if it -- and in a contingent way -- strikes me as sort of very important and I think likely to produce both better rules and better reactions by the market participants.

MR. DIPLAS: I would fully agree with that. I mean, the -- I can't stress enough the importance with kind of legal certainty, a context certainty, especially in a stress period. I think the most problematic kind of reaction from market (inaudible) we have seen resulted from (inaudible) certainty, especially with emergency powers. I know it was mostly (inaudible), for example, with (inaudible) actually encounter emergency type situations (inaudible) fundamental for us to actually deal with those kind of with a scalpel as opposed to a sledge hammer in order to actually ensure that the conduct, the sanctity is preserved, and if there are times that the emergencies need to take -- to be dealt with but the economic context or the conduct need to be preserved or need something, sometimes with respect to timing -- there might be delays (inaudible) to deal without the emergencies (inaudible), but that should not affect the underlying context. I mean, we start with that premise, I think we're okay, and we just adjust the flexibility in the system to deal the emergencies, but we don't undermine the system.

MR. GOOCH: I think the problem with emergencies is it's very hard to know what they're going to be and how to deal with them. So, I think there's only two things you can probably do, practically speaking. One is to have the repositories themselves as real time (inaudible) information content as possible to maximize the chance that any information regulated needed to deal with emergency was actually there at the time it happened.

The other thing is about the SDR itself in terms of BCP coverage how to region support, that kind of stuff, to make sure the SDR isn't the cause of a problem or isn't actually impacted by a problem. Something -- the SDR is something that is probably very dull and boring and unnecessary most days of the week. Occasionally we're here to really need it and just need to make sure on that day it has the information you wanted and is actually available when it's happened.

MR. PRITCHARD: Yeah, we did totally agree with those points. I think the value of an SDR is the data that's already there when a crisis strikes and, you know, about to let you change what it does in a hurry, and our exposure management service was up and running in 2008 and a lot of the firms that had already got data and history on it were able to derive significant value, and we saw a huge uptake and usage of it particular weekends of the crisis, and I think I'd agree with the point that it's the data that's already there that is going to be valuable.

MR. TUPPER: I think the best thing the SDR can do in times of stress is availability. You know, availability is building, you know, (inaudible) redundancy, back-office facilities, DR sites into your system.

To echo the point, you know, most days of the week, a confirmation -- SDR services are pretty boring. Utility-like product but all of a sudden when there is a stress event, you know. Like around Lehman, we received a lot of calls making sure that we were going to be up. All the trades are historically available, all that's done. I mean, that's pretty much a -- I would say, having just technical requirements of a global, scalable system would have that redundancy built into it in order to always be available in a time of stress.

MR. SCHOTT: Thank you.

MS. NATHAN: I think we have time for maybe one more question.

How do you all believe that the application and registration process for designating or registering an SDR should be structured? For example, in what technological compliance, resource, and other areas should an SDR be required to demonstrate competence and proficiency in order to be registered?

MR. OKOCHI: Well, I think certainly having a track record of being able to house this type of data, including the ability to understand the different trade types, book, value process, report on these trade types is key, track record for showing, up-time, you know, strong, sort of (inaudible) agreements, all of the security backup information that's required. So, you know, I think, you know, on the one hand you want to encourage as many potential SDR registrants as possible so you have some choice as you go through the actual selection process, but clearly you want to manage that a little bit and have some key requirements around the technology, ability to really deliver software because it's not just about delivering a database, a software that can analyze the data, provide the reporting, and providing the access.

MR. GOOCH: You guys are pretty more expert at this than we are. I imagine if I was sitting in your shoes I'd worry about compliance functions, at the early conversation, whatever the minimum requirement is to make sure that's in place. I think BCP and security is incredibly important to make sure whoever filling SDR function has that. And then the final thing is are they able and committed to providing you the data you've decided you needed to see, wherever that ends up being, making sure they're not -- and don't have legal impediments or systemic impediments to provide that data.

A lot of other things you could talk about, but this has to be in place by July next year. There's not going to be a lot of time.

MR. TUPPER: I would say in addition to the system providing such a service probably demonstrated expertise in a particular market type, the systems can function great. But obviously having a track record working with the industry to provide standardization, you know, around changes in industry events -- you know, energy is always an evolving market, so being able to work with industry participants to develop those standards and then list them effectively on a system. Also I would say a proven track record of working with outside vendors, especially in energy. That's very popular. Many of the connections are provided by outside vendors. Connectivity to the market participants, you know, demonstrated track record. That's important, because, really, an SDR is only as good as its ability to aggregate and receive data. So, that's another consideration in addition to all the system requirements I think, which are pretty standardized.

MR. SHILTS: What about some sort of financial resource?

MR. TUPPER: Yeah, we -- we -- to confirm -- that's a great question. We actually carry an operational on the OP policy, so I would think obviously, you know, we carry a policy of $10 million per event, so if, you know, if a trade is matched in error, you know, participants are (inaudible), that would probably be a requirement as well.

MR. SHILTS: That's a good point.

MR. PRITCHARD: I think we talked about the comprehensive coverage at the beginning, and that's key, because one of my colleagues mentioned a provision in the act submitting trades that wouldn't be accepted by any repository directly to the Commission, and that's probably something you don't want to get. So, comprehensive coverage across the whole OTC swap landscape is important, and also scale. We see six million trades on a regular basis, so once this rules come into effect -- I know there are some periods of sort of phase in, but you are potentially going to get a huge amount of data, and then you're going to get it on a periodic basis, so capability to handle the entire market is an important consideration.

MS. NATHAN: We do have one last question. Oh, I'm sorry. Please, Mark, go ahead.

MR. DIXON: Just add to what the gentleman said. I would think there's probably more similarities than there are dissimilarities between the infrastructure and operations of a DCO or a DCM in principle, applying best practices. I think staffing competency would also be key to add to the things that Bruce had just mentioned, which means there's going to have to be some face time between the regulator and the entity.

MR. SCHOTT: So, one last question on a slightly different topic. We've spoken a lot about the Commission's being able to reach into SDRs and form pictures, you know, of an aggregate marketplace. Do you foresee any need for SDRs to communicate with each other? Should there be any requirement or voluntary agreements for SDRs just to share information?

MR. OKOCHI: Well, I think it's in the best interest of everyone to work together no matter how many SDRs there have been, in particular with the SDRs that are internationally based. So if, again, you're trying to get a global view of risk, just having, you know, an efficient SDR program in the U.S. doesn't really solve the problem. So, I think it's really the ability to coordinate within the U.S. And then certainly offshore.

MR. SPATT: Even from a process point of view, I would imagine that the SDRs are going to face similar types of issues and challenges across -- both across countries and across product spaces, and certainly there's going to be some scale economy just in -- certainly at least allowing and encouraging the SDRs to share with each other the benefits of their expertise on the process side. And I don't mean just computer process, but even with respect to kind of perhaps substantial regulation or market kind of oriented issues that they're going to face, which are going to have some connection across these contexts.

MR. DIXON: Just to add to that, I'd say differently, which would be nothing to prohibit that cooperation I think would be helpful.

MR. GOOCH: I sense here another trade association being set up.

MR. SHILTS: Okay, we want to end in a few more -- in about five minutes, but I had one question and kind of -- and I apologize if this was answered, but maybe I didn't get the -- from the discussion what most people's thoughts were, but do you -- and just to very quickly kind of go around -- do you view a core function of the swap data repository to include confirmation of trades as well monitoring for life- cycle events? I know there was discussion about that, but I would just -- what -- just very quickly.

MR. GOOCH: I think it depends what your mean by core function. I think confirmation is incredibly important. It should be a (inaudible) activity. I feel strongly (inaudible) and SDR function or set function or something else. It just needs to fit in somewhere into the act. Whether the same entity needs to do both things I think is -- hardly none of the offerings work on that basis. So, I don't know if it has to be the same company, but there always needs to be some sort of registration and confirmation.

MR. SHILTS: Can you -- oh.

MR. MACBETH: Yeah -- no, I would say the life- cycling event there is important. So, there certainly -- you talk about credit derivatives when there's a credit event. They terminate. You know, succession events, the underlyings change their names. There's very much a life cycle that actually informs the position. You know, and you have follow that life cycle, and not all these events are yet confirmable in a legal contract sense. I think -- you know, sometimes -- like, with -- a lot of the comments that refer to the trade confirmation service -- and that -- and that -- you know, and Frank Foreman limping and linking things to wrappers.

You know, I think we've talked more widely about some other means of getting trade dates of two repositories of -- you know, it's obvious from their acts that there's an obligation for the -- to confirm with both parties, and confirmation vehicles are great ways of doing that. But the repository -- you know, from our perspective -- is about aggregating that dataset and maintaining, you know, that dataset and making sure what gets reported is an accurate and valid position. And life-cycle events can't be totally ignored from that.

MR. SHILTS: Okay, and just very quickly.

MR. TUPPER: I believe there's a core component, but in addition to operating the warehouse for the energy commodities, it's one's part. So, confirmations -- that's a first step. You need to make sure you've confirmed trades. Usually third parties doing that is probably the best way to achieve that, but then once you receive -- it makes it way into the warehouse, maintaining life-cycle events is going to be the next step for position reporting.

MR. PRITCHARD: Yeah, I mean, there's obviously multiple duties on a contract, and confirming them is one, and reporting it to an SDR is another, and there are many successful pieces of infrastructure around in the market, and we just believe that that decision -- it might be right to use one particular (inaudible) to do both, but it should be left to the market and the participants rather than the rules.

MR. OKOCHI: I believe the intent of the confirmation aspect in the Bill is to confirm the trade details sent by the swap dealer, the major swap participant is accurate, not to confirm that the trade between the dealer and, say, the end user is matched and confirmed. So, if it's the former, absolutely the SDR; if it's the latter, we need both sides of the trade.

MR. DIXON: I would just echo Ralph's comments.

MR. DIPLAS: Yeah, I agree with that. I

think this (inaudible) should be asset class specific. I don't think it can be mandated. For example, in credit, 99 percent of the (inaudible) outcome from there (inaudible) percent cannot be there, because that functionality does not exist. So, the reporter has to be able to get a larger set of data than that. The life-cycle events -- again, in credit we designed this (inaudible) because it was needed. But in other asset classes it is not needed, so therefore I don't think we need to mandate it. So, we need to be a bit more asset class specific in that respect.

MR. MACBETH: Can I just come up -- back on.

MR. SHILTS: Very quickly.

MR. MACBETH: Yeah, it's an -- the only comment is that what they've essentially done by a repository I think is a separate question in terms of this life-cycle maintenance, which may be the credit model where it is centralized as opposed to some decentralized and some messaging around -- well, I think there are opportunities there. But

I think the real point I'm trying to make is to have accurate data you have to understand life-cycle rates.

MR. SHILTS: Chester, do you want to say anything?

MR. SPATT: Well, you know, I would just echo so many of the comments of the participants. You know, to the extent that there's sort of an economic issue with respect to confirmations, it seems to me the main issue is simply making sure that the data -- you know, the follow-up on storage point to make sure that the data integrity is there, which a confirmation -- at some level pieces of the confirmation process are important to, but then I think that the more ministerial aspects of the confirmation process -- those really ought to be associated with comparative advantage, and I think a number of the panelists pointed to aspects of the confirmation, particularly if they said they involve end users, don't necessarily lead to involve the SDR. So, it seems to me that where the opportunity is for the commissions operating under Dodd-Frank is to be clear about which aspects of the confirmation process need to be linked to the SDRs.

MR. SHILTS: Okay. Thank you very much, and I want to thank all the panelists. It was very a very interesting and helpful discussion. We'll end this panel and we'll start up again at 11 o'clock with Panel 2. Thank you again very much.

(Recess)

MR. SHILTS: If everyone wants to come in and take a seat, and we'll get started. Okay, let's get going. We're going to start with our second panel today. This is going to focus on the mechanics of reporting, and data on swaps. And some of the topics we want to discuss with this panel are the types of data to be reported, the parties that would be responsible for reporting, and the reporting of life-cycle events.

Again, my name is Rick Shilts. I'm acting director of our Division of Market Oversight at the CFTC. And joining me is Robert

Cook from the Securities and Exchange Commission, and as we -- to begin this, why don't we go around the table and each of the panelists can introduce themselves and say where they're from. And then I think we have one that will be identifying himself from New York. So press the button there and the red light will go on.

MR. THEMELIS: Nick Themelis, CIO, MarketAxess. We're an institutional electronic trading venue for fixed- income product, specific focus in credit.

MR. GLACE: Joe Glace, chief risk officer for Exelon Corporation. I'll be providing the end-user viewpoint.

MR. PICKEL: Bob Pickel, executive vice chairman of ISDA, the International Swaps and Derivatives Association.

MR. MACBETH: Stewart MacBeth, DTCC, general manager of the Trade Information Warehouse.

MS. LEONOVA: Irina Leonova, CFTC, Division of Market Oversight.

MR. TAYLOR: David Taylor, the team lead for the Data Recordkeeping and Reporting Requirements Rulemaking at CFTC.

MS. SEIDEL: Heather Seidel, Division of Trading and Markets at the SEC.

MR. MICHEHL: David Michehl, Division of Trading and Markets at the Securities and Exchange Commission.

MR. PRITCHARD: Raf Pritchard, head of TriOptima North America.

MR. DIXON: Mark Dixon, chief operating officer of Evolution Markets.

MR. CUTINHO: Sunil Cutinho, CME Clearing House.

MR. SHILTS: And lastly, from New York --

MR. BARNUM: Jeremy Barnum from J.P. Morgan.

MR. SHILTS: Thank you. And as I noted for the first panel, we'd like everybody to have an opportunity to comment on each of the questions raised. But if we go on a little too long, I'll try to cut that short so we do get all the questions in during the -- for this panel discussion, which we hope to end at 12:45.

So with that, I think David will kick it off with the first question.

MR. TAYLOR: And I want to just briefly set a little background for this and some of the other questions. I was thinking listening this morning, living in Washington I suppose rubs off on you after a little while, but I will try not to put this question absolutely into the Congressional category.

But we might want to usefully remember, as we do all these questions this morning, I think the repositories are going to need three basic stages or types of data, and we might separate these as we talk. Certainly they're going to need initial deal or transaction data. You might call this "transaction event data." They're going to need post deal data, some would say life-cycle data, events, over the existence of the swap. You could call this "transaction state data" if you like. They're probably going to need counterparty position data, mark-to-market data, collateral data, that sort of thing.

And one thing that's been driving our thinking about the data that should be reported and how it should be reported is the use that regulators need to make of the data at the end of this process, in a way it all -- what data should be reported all derives from there. Worth remembering, regulators will need to do market and trade practice surveillance enforcement, prudential supervision. Some will have resolution authority, monetary or currency authority, macro-prudential systemic risk supervision, real-time reporting, and position limit supervision. To serve those purposes and some of the fundamental purposes of the legislation, including transparency and systemic risk mitigation, we have been considering the possible use of three unique identifiers regarding each swap. Another way to say that would be a unique required way of expressing data in three key fields in the data structure, a unique deal or transaction ID for this particular swap that would follow it over its whole life, a unique counterparty ID for each counterparty to a swap, and a unique product ID to say which bucket does this swap belong in?

So having said that, a three-part question: How could we best create these three types of unique ID? Who might be the entity that would create each of them? How would they be given to all the entities involved in the swap: The counterparties, the SEFs, the DCMs, the DCOs, the SDRs? And what are the benefits or potential obstacles to trying to create a system of unique IDs?

MR. CUTINHO: Thanks, David. I am speaking from our experience as a clearinghouse and as an exchange. We have had to address these challenges as well. When we talk about transaction identifiers, there are identifiers associated with different stages of the transaction. There is the execution part, and then there is the clearing part, and then each client on the two sides of the transaction would also like to trace these transactions to their own risk systems. So when we talk about transaction ID and uniqueness, I think the challenges one should consider are there are not just one identifier, there are several.

What is important is an identifier that we would use as a clearinghouse for our purposes, and there would be a similar notion, I suppose, in a swap data repository for uncleared stuff. From the participant standpoint, it's very important for us to know the end participant as well, especially for cleared-only transactions. We record this. We actually maintain positions for these participants, and we provide multilateral netting within the clearing system. So it was almost essential for us to have this concept. From this perspective, we have to understand challenges of asset managers or money managers who are actually managing funds for multiple accounts. So it's important to address those challenges.

And the third important thing is product identifier. Now for the listed stuff or a large part of standardized stuff, this is actually quite simple. We have a mechanism of actually templating or creating contracts that predefine the standardized terms, and then we identify those terms that are negotiated. As we move into the over- the-counter space, there are a lot more flexible elements, so templating or contract creation becomes a challenge. So one way to address that is actually to type-class your derivatives into different classes and then within those asset classes, go specifically into those areas that are treated by the market participants as a standard. So they're not negotiated. They're kept in tact, but the negotiated aspects are the ones such as coupon or start date, termination date, et cetera. The industry itself has encouraged this effort, so we see that happening in credit.

We have adopted the same standards for rates. We see the market transacting in such a manner so we've created a templating mechanism that helps us actually classify those derivatives. Again, what I'm trying to communicate here is not as easy as to come up with just one identifier for a product. We need to actually take into account how the transactions take place. And then in a cleared world, that happens almost automatically because we have to standardize a few terms in order to process them in a standard manner. But for an uncleared world, there can be a few parameters that are actually negotiated.

MR. PRITCHARD: I think that's a great point, mentioning the cleared world, David, because we find ourselves a bit coming together with the exchange listed cleared world and the OTC swap world. I mentioned in the last panel the diversity of the landscape across all the different asset classes and all the different instrument types within that. And that's really the challenge facing the product ID part of this question. I think in our interest rate repository, we see 3.6 million live contracts outstanding. And we see a rate of new interest rate swaps coming in of around 3,600 a day, and of those about -- the most popular currency is dollars -- and that's about a third of them with 1,200 dollar swaps. And then about half of those are on round dates and half of them are forward or odd dates, so that's getting down to the most popular forward date is the 10-year swap. We see about 200 of those a day, and then even there, there is as someone mentioned different rate bases or tenors that you can put them on. So there's really only 100 or so completely identifiably standard 10-year swaps going on on a particular day. And I think it's worth just observing that contrast between the listed markets and the OTC swap markets when we address these challenges of trying to provide standard product IDs.

MR. MACBETH: So can I -- I'd say in terms of the unique deal, you need to put that up front. That needs to be created at the point of, or as near to, execution as you can. And so there's the SEF vehicle potentially for doing that. There's the confirmation wrap-up vehicle. The SEF may use a confirm service itself directly. That unique reference could be applied there.

Also, we talked in the earlier panel about this idea of some of those trades that aren't electronically confirmable being linked, and again, we talked high in the chain. The same providers, I think, that provide confirmation services would want to support those kinds of transactions and provide some of the confirmation services that exist today, had origins as checkout platforms. And I think they're very valid points to start creating unique identifiers for a transaction that then can be carried down the transaction stack through layers of infrastructure. And currently we provide one when it gets registered in the warehouse that is well used because that is the value of the unique ID. There's this sense of a common reference, and that is being used throughout the market for individual transactions. But the essence to my mind is you have to do this early if everybody's going to share that. It has to be high, high in the process. SDRs could do it, but also these confirmation providers and execution facilities. So, sorry, I was going to --

MR. TAYLOR: As people go on with that, let me add one extra aspect to what you were just saying and others could respond. If the idea is to get one unique -- let's start with the deal ID -- used by everyone in the swap space, obviously a question is, who creates it and how is it transmitted to everybody who has to use it? For instance, is it workable for the data repository to do that? And if so, is that early enough in the process? And how do they send it back out? Just add that to the question as you go forward.

MR. MACBETH: So that practically is what happens in the credit market today. The issue we will have to contend with is how we would link that back to the SEF if the SEF sits above that. Having said that, there are some back population techniques that are used, it's not a technically impossibility. So again, it could be done at the SDR level. The SDR, hopefully, will have advantages of completeness. So again, to the uniqueness point, actually being the kind of golden source of that, yeah, that is a possibility.

But I also want to kind of mention those confirmation and middleware providers that are really at the tie-up point to the extent that's not itself considered an SDR. So -- and I think personally, it's quite a big change for people to flow that information through. In general, yeah, there is practice I know. Jeff Gooch was in the earlier panel. His service -- he has references in his service. He uses those. They're marketware IDs as well. And people do internalize those and use them as the common reference when they bilaterally trade and bilaterally process thereafter through their life. So some of that exists and it is usable.

Unique counterparty is important. It's difficult, I think. There's clearly a lot of data providers in the counterparty world but when you

-- I guess my experience with the regulators as an SDR has kind of suggested that they do want relatively rich counterparty information. Clearly we need proper validation for who that is, but the actual task goes beyond that and starts talking about who is affiliated with that party, even goes to credit support and ex-terms or guarantees between companies. So it's a very complex reference dataset. I suspect, therefore, it's a different data service. Again, practically, we've addressed it by having contracts with our customers.

And when we talk about the compliance thing I talked about, kind of KYC and AML staff, we do feel the need to know our customers and we have data on them which we use. We've got about 1,700 clients, 17,000 accounts. That's not going to get you the whole derivative market, but it gets somewhere. But there is going to need to be a source. Now, how you resolve what source that will be, I think, is a complex question. There's a lot of commercial interest to that. I'm probably not the best person to establish creating that. I can -- DDTC has a counterparty reference data business. I can promote that, but I think it's kind of a complicated world.

And then he talked about unique product identifiers, and I think that's a question of actually what level of granularity you want to go to. At some level there are probably some standard contracts that are known. So with Themelis in the room, there's these kind of standard, North American contracts for credit derivatives. Most people know what that default is and has a strong market meaning. There certainly is a strong position in terms of setting those standards. I guess I've seen a slightly different level -- and it depends a little bit on the use -- trades or products characterized almost by attributes they carry.

So if a product had exposure to credit underliers, it would be put in a credit category. You'd have a product type. So between OTC, exchange, securities, you'd have a series of attributes that basically build product descriptors, but you have a defined set of attributes and a set of values that people use. And that tends to enable any product to fit somewhere on that matrix because the problem always is the nonstandard product. So whereas the standard trade has a market name, tend to have a product name issued by their marketing firms and less standardization.

MR. PICKEL: Yes, I was going to say that I think you've certainly identified the key pieces of the identifiers, but in effect it's really a string of all that information that identifies it, particularly in the pure, bilateral, non-cleared world what that particular trade is. Once you put it into a clearinghouse, one of those variables, if you will, is more or less fixed for that transaction. You can look at cross-transactions for trades with that clearinghouse of a certain type, et cetera, et cetera. So I think that's the notion that you'd have to think of.

And that's I think different from -- and I know people talked about CUSIP-type numbers, that type of thing. It is not a standardized number in that sense. I mean, every particular trade effectively will have a different identifier, and that's been an issue that for the past, I would say 10 years if not more, either the dealers and their customers or some of the vendors that have developed, such as the ones around the table and others, have tried to wrestle with how we go about that. So there's a lot of learning, there's a lot of scars there I suspect that you can draw from to understand how to best put together a deal identifier that is meaningful, giving you the right level of information.

I think to Stewart's point, you could find yourself getting into an awful lot of detail on the products themselves that frankly at the end of the day isn't necessarily all that much useful. If you know it's a credit deal of a certain type broadly speaking. So I think it's finding that right mix is the right focus.

MR. GLACE: Having an unambiguous identifier is just ideal because if it's issued at the time by the SDR, it's sort of contemporaneously issued by the SDR, it also helps with the person doing the reporting, saying I've fulfilled my reporting duty or obligation because I have your identifier number back, and I'm stirring it now as my trade ID, your trade ID. That really helps end users communicate with everybody.

MR. BARNUM: I think one of the things that hasn't been mentioned yet, which I think is an important piece of it, although I think Stewart alluded to it a little bit, is the sort of question of the balance between timeliness and completeness and precision. And so if you go back to the three purposes if not more that are related to the reporting, one is the post rate transparency, post rate price transparency mandate. And then there are requirements also related to systemic risk oversight, essentially the ability of regulators with systemic risk mandates to look into the SDRs for purposes of really performing almost like an independent risk management function for the market. And the requirements for those two functions are quite different, and I think many of us in the market have struggled at different points to try to do the same -- those two different things out of the same data source. So I think being clearer I think collectively in our minds about that distinction is going to be very important.

So what I mean by that specifically is that, I imagine that when the rulemaking is done for the most liquid, most heavily traded products, the post rate reporting requirement is likely to look sort of not dissimilar to what trace looks like today for corporate bonds. Meaning it's going to be on the order of an hour or less after the trade is done if not significantly faster. And so I think all of us know that there are certain aspects of the post rate enrichment process that don't get done until much later in the day, and if we design the process so that it is a requirement that all of those things be populated before the post rate reporting can be done, then you're going to have the policy effectives come into conflict. So you have to design a paradigm that allows the post rate transparency reporting requirement to be met kind of quickly with a somewhat reduced set of data, which is really in reality the only data you're likely to care about for that purpose which is basically size and price and the thing that traded and then allow for further enrichment later in the workflow.

And I would argue for not trying too hard to try to reconcile the flow data that comes out of the post rate reporting with the ultimate kind of goal position data that you're going to use for risk management. I think you just have to accept that there occasionally are going to be differences. And you have to trust that if institutions are using the SDRs for their own reconciliation purposes for risk management, then that should suffice for the regulatory community because otherwise you might create a huge amount of overhead around that reconciliation for relatively little benefit.

MR. SHILTS: Mark?

MR. DIXON: I think there are a couple questions and the first one is whether or not -- what's the minimum dataset you need? And I think one of the things to consider is the asset class and the type of transaction. In particular, allowing for uniqueness and allowing for some supplemental data to be added to that to help clarify. And I think an interesting point was just raised, which is when do you actually need that data? Because at certain times of the day you may need one dataset and at the end of the day, post reconciliation, you may need another dataset.

And the last thing I would say is some type of standard is going to be essential. You have two challenges. You have legacy products, that's one. That's going to be a heavy lift. And then the new products, I think, are much more straightforward and no small part will come as an outcome of trying to kick the legacy can around for awhile to come up with the right solution.

MR. PRITCHARD: I will just add one little point to that. I think -- I totally agree with what Jeremy said, but it's also on a practical note a lot of the identifiers that are in use at the moment. I suppose in our risk management service we've got cleaned up thousands of legal entities as we received that data and practical steps have been taken to address these problems in the market. One thing that does happen quite a lot is that when data gets passed around, the identifiers from the venues that are out there are used a lot. We get a lot of DTCC IDs in our data room. We pass outside, drop some IDs back out to the market. So in terms of -- you can refer to a trade by one of the identifiers that is already electronically -- a venue identifier adds a lot of value and can provide a practical solution to some of these standardization problems.

MR. TAYLOR: Let me ask one follow-up -- go ahead.

MR. BARNUM: No, I was just going to add quickly to what Raf said, just to echo that really across almost all of the questions that have been asked is that I think it's important to realize the degree of evolution that certain segments of the OTC market have undergone in, say, the last two and a half or three years. Such that, in fact, I would say about 80 or 90 percent of these questions have in one way, shape, or form already been answered reasonably robustly. There's probably some cleanup that needs to be done around certain issues and some centralization and some specification of universal standards, but to what you might find to be a surprising extent, many of these issues have already been sort of resolved maybe in some cases in a commercial way that creates certain standards conflicts, but less than what you might think. So there are already solutions in the wild in many cases.

MR. TAYLOR: Let me ask one follow up

before we leave this, specifically on counterparty ID. If we set up a unique ID for the two legal entities that are the two counterparties to the swap so that that field could be expressed in a unique way, as Stewart and I think a couple of other folks alluded to earlier, one of the things regulators are going to need to do is going to be able to aggregate up to the parents or affiliates of the two counterparties in order to do various kinds of systemic risk management. Is it workable to get -- separately from that one unique ID of the counterparty -- to get affiliation data into the SDR? It would be in different parts of the data structure, but it would be there so that regulators could do aggregation. Or is there a better way to do that? How do you deal with also getting the affiliation data? And it's -- here we have both potential or existing repositories, and we also have counterparties. So it would be nice to hear from both sides of that.

MR. GLACE: Generally speaking, we don't try to make the code itself intelligent. If there's a counterparty and parent relationship, it's usually some other software that tries to aggregate the relationship. Also typically, the counterparty ID is just an unambiguous single tag for a counterparty that the trading systems or some other aggregation hierarchy assembles and somebody else has to declare what the relationships are between the parent and the sub. So again, from our standpoint, generally speaking, we just usually don't try to make a string code that identifies it within the code. That's usually difficult.

MS. LEONOVA: But may I follow up? Sorry, but based on what level of legal entity reporting, you assign a unique ID. You actually invent how they do aggregation. You could do it on top parent level. Do it on legal entity level. You could do it on trade and desk level.

MR. MACBETH: So we operate on legal entity level in terms of our data. We do have a set of reference data around counterparties that we use. In the short term, we expect we would have to enrich that to something like that. We have a family grouping so we can roll some of the data up within a family and present that. But we don't have an exhaustive dataset of all affiliates or the nature of their relationship or ownership. And practically, that really sounds like to me a service that you will have to in effect subscribe to really to keep that current. So that is the way I see that counterparty legacy.

But there are certain things I think we're going to have to keep, and so certainly knowing who our customers' regulators are and, therefore, who we can report certain data to and have a dollar with is relatively close to us and, therefore, almost proprietary to the business we do. But I think ultimately there's a sense of external pricing, external sourcing, for that, for some of this data.

The other question is who exactly will aggregate at what level. So if the SDR is aggregating or the commissions decide that they will appoint somebody to be an aggregator amongst the SDRs, you would then expect that SDR to actually be sourcing all over that data and probably consolidating on that basis and presenting it to the commission. I'm sure the commission will have access to its own information, but it is slightly a function of the model. Again, without repeating the earlier panel when we talked about fragmentation and all those kinds of issues, and they moved the burden somewhat between the commissions and the SDR potentially.

MR. CUTINHO: Actually, we in some ways have to maintain or understand the relationships from two purposes, from two perspectives. One is from a risk management perspective. We have to understand the relationship between entities. And if they're affiliates, we have to look at their aggregate first. And the second would be from a market surveillance perspective because we have certain obligations to our regulator, and we have to report on that. So from these two perspectives, we do monitor relationships, and we do aggregate at different levels.

MR. PRITCHARD: I think TriOptima -- sorry, but I'll echo what DTCC's -- our experience is very much of -- our exposure measures at working at the legal entity level and I think in terms of crisis that's what people are interested in, what is specifically linked to the exposure. It's very important to say exactly what you mean if you are aggregating it across the market and what is the basis for doing that.

MR. SHILTS: Okay. If no more questions or comments in that one, I'll turn it over to Heather for the next question.

MS. SEIDEL: Thank you. This question sort of goes to -- we've touched on it in several of your answers. There's a requirement in the act that information be reported. And I guess sort of one of the baseline questions is, what type of information should be required to be reported? And sort of across asset classes, different asset classes, cleared versus uncleared. Maybe your thoughts on sort of what happens today and how can that translate into a rule that will be in place, talking about the types of information that would be reported. And here I'm not talking about sort of real-time reporting out to the public, but reporting into the depository.

MR. BARNUM: Well, I think -- go ahead Raf, go ahead.

MR. PRITCHARD: I think that question starts with the comprehensive view of the swap at the repository. It is -- we think of it, the OTC swap landscape, as a two- dimensional sort of plot with the asset class category going across the top, say Credit, Equity, Rates. And then the instrument type vertically with Simple Swaps and More Complex Options and Hybrids and Structures. And it's really important as we've discussed that it's comprehensive and every trade in the OTC swap world has a place on that landscape and can be captured by an SDR and aggregated together. And so it's important to catch some data that is the key financial details of all those swaps across the landscape. And then where there are more standardized trades where templates exist, capture that data or reference to that data at another electronic venue. But I believe capturing something across -- some key financial terms for every trade across the whole landscape, no matter where it is, is an important piece of designing the data that an SDR should receive.

MR. BARNUM: So, I can't --

MR. MACBETH: Sorry -- Jeremy, did you want to go ahead?

MR. BARNUM: No, the only thing that I was going to say is I think there's some of these arenas where there are tensions between different benefits that we're trying to achieve and there are some of them where there aren't. And those are the easy ones, and we should sort of celebrate those. So I think in the case of reporting to regulators that have an enforcement mission or a systemic risk oversight mission, when that information is kept confidential and is simply being consumed by that regulator for the purpose of performing their regulatory function, then I think the answer to the question, what information should be supplied, is quite simple? It's everything. And the only really contrary weight there is where there's superfluous garbage that just makes the job harder, but that's a fairly low-level technical issue.

I think fundamentally, if you just take the credit markets as an example right now, the DTCC has a whole bunch of stuff in there all of which arguably most of the time most people wouldn't care about. But for the purpose of doing systemic risk oversight, which has to really get down to the actual core economic contractually binding terms of the deal, you have to err on the side of completeness. And the cost of doing that in my view is relatively low since there's no real risk of accidentally disclosing things that could be damaging to market liquidity, et cetera.

So I think the carve-out of the post rate transparency reporting in Heather's question is critical. When you reintroduce that, then you have some interesting things that you have to weigh.

MR. MACBETH: So it's -- our experience has been the different regulators have asked for different data. The markets' regulator is very detailed data. And in essence they've needed complete confirmation-style records because they really want -- some of the work -- the impression I've got is they've been looking at some liquidity aspects in the market and we've had to -- we've done some public disclosure about some liquidity analysis, but we've had to get to a fair level of degree of specificity in separating pools of contracts to say that actually those are a grouping that go together. So we found that some of the markets' regulators' needs are very, very granular.

They've also at times have had kind of high-level needs, wanting to understand positions and transactions, not necessarily at the level of price sensitivity which maybe the liquidity analysis was trying to look at, but just really understanding who's holding positions and how they move over time. Prudential regulators have typically come in and asked us for information about positions for their regulatees or positions relating to an entity that they oversee in some way or exposures amongst a group of entities that they oversee relating to a reference entity. And then the systemic stuff we've seen or the stuff to central banks has again been the more aggregate, less specific. And the latitude -- the emphasis on the mark-to- market probably is more important so that prudential and systemic risk regulators wanting to understand the total exposures. And again, that links back into the collateral conversation that was had earlier. So that's been the practical experience from us.

And so I think when you are kind of an SDR, you kind of have to go to the deepest requirement and work up. So we think trade event feeds that are sourced from very high quality records are important, and we think some of the daily mark-to-market valuation stuff is important.

MR. CUTINHO: From our perspective, we

do have a division within the CME Group dealing with regulations. So from our perspective, I think we have an existing relationship with our regulator. The kinds of information are what, who, when, and where. That is at the transaction time. It's very important to track that. So we monitor that ourselves to make sure our markets are functioning very well and to preserve market integrity.

Then from a post rate perspective, I think most important thing is ownership, transfers, where do the trades go, the state of the trade.

And then finally from a risk perspective, the mark-to-market or at the end of the day, what are the monies actually settled. So we provide this function within the CME, and we share this with our regulator.

As far as swap data repositories are concerned, I do understand the challenge where these are for uncleared swaps for this population. I would think that you would have similar requirements, especially from the transaction side. You would need to know where and how and who actually executed the transaction. Of course, it's subject to all the confidentiality issues or privacy issues across jurisdictions which Tanasus was talking about in the previous panel.

As far as the positions or the owners of the trade, I think again the challenges are who is the counterparty and one issue with repositories is they're maintained as trades. We in the clearinghouse find it very easy because we do multilateral netting. We can actually communicate net position risk or net risk. So those are the challenges you deal with.

MR. PICKEL: To echo a bit of what has been said, especially what Jeremy said, the fact of the matter is this data has traditionally existed. It's been available in many cases to the individual regulator of the regulated entity to the extent you're talking about a bank or other regulated entity. The goal as I understand is to allow a regulator, whether it's a market regulator or a systemic risk regulator, to have the information to connect the dots, to see trends and trading that might be relevant from an enforcement standpoint, and to see buildup in risks that would certainly be relevant from a systemic risk standpoint. So I think certainly in the conversations I've been involved in with regulators over the last few years, there's been a real willingness to provide access to that information for those two purposes. And so we can build on that utilizing the structure that's been put in place now across credit, interest rates, and more recently equities from the data repositories.

MR. COOK: If I could jump in. I wanted to connect this discussion to what I think is a broader question that is relevant to a lot of what this panel is going to be talking about, and frankly the other panels as well, which is how we connect the dots as you're talking about not just within the derivatives markets but across other markets. And how -- to what extent can we develop a system at the end of which we're able to look across markets where underliers are the same and to look at issues of control where you have -- and this is getting back to the earlier line of questioning -- where you have parties who are under common control even if they are separate legal entities. That might be of interest from a regulatory surveillance perspective. And in the equity markets we have a number of initiatives, including a large trader reporting initiative and a consolidated audit trail initiative. And one thing that might be interesting is to think about how to connect up the data elements we're talking about here to those other initiatives, recognizing that time is short and we can't create the perfect system all at once.

So I think one question I'd raise is assuming we know where we want to get eventually, what can we be doing now to make sure that even if we can't create the perfect system out of the box, that we're able to get there efficiently in a relatively short period of time to be able to have the facility to surveil across markets and so that we don't have to spend another two years or three years dealing with the lack of interoperability, for example, between different reporting systems because we didn't think of it at the beginning. I'd be interested in your -- how that feeds into your thinking about what types of data we ought to be soliciting at the beginning of this process.

MR. PICKEL: I guess I'll jump in there and see where things go. It's a daunting task. It's daunting enough to get the information to the derivatives world in a consistent format. In fact, I think we're farther along than other markets are likely to be.

If you looked at the Lehman Brothers report from Valucas, can you look for information aspects on OTC derivatives, he said the two -- the only two things he said about OTC derivatives -- first of all, he said their records for OTC derivatives were actually far better than existed in other product classes. So in a sense they were further ahead. And further they commented that the tension that exists in the bilateral relationship, particularly where collateral is involved, creates a natural competitive tension between those two parties and as a result their risk is more effectively managed. That's almost as an aside -- it's not really relevant to the data point. But I think the key thing is that the information in Lehman Brothers on OTC derivatives was better than other areas.

We could -- and I think part of the discussion with this panel later on, they get into some questions of standards and obviously we can talk a little bit about the FpML standard which provides some of that consistency, a large part of it, but I think you also want to make sure that if people have in place other mechanisms that provide information in an effective way you don't undermine what currently exists. So those are a couple of thoughts.

MR. BARNUM: I think the question was asked, what can we do to achieve more, faster? And at the risk of being a little bit controversial here, I think frankly the tension that no one has yet mentioned explicitly is the tension between the transcommunication of who's going to pay for it? And what I mean by that is that a lot of people are on the table have alluded to the fact that a lot of these problems have largely or in some cases completely been solved, and in some cases by more than one commercial provider. And at the same time, a lot of these kinds of questions are questions that large banks ask for themselves everyday. So the question of, I need to do multi-asset class, high-level aggregate risk management, is of course a question that every single large bank has to do everyday as part of their risk management function.

And the kinds of technology challenges and reference data challenges and legal entity to affiliate mapping questions -- I mean, these are questions that all of us who've been part of that kind of stuff over the last 10 or 20 years have lived with quite painfully in many cases for a long time. And there have been, as is well known, initiatives created in the market.

One random example is the RED initiative surrounding the standardization and kind of certification of legal entity names for usage in the credit derivatives market, but there are many other similar examples. And the question that just comes out of that is if you kind of re-specify it and rebuild it from scratch in the sort of context which is regulatory compliance, you're kind of going to be crowding out all of the existing private sector solutions and it will take you much longer.

On the other hand, if you embrace the existing private sector solutions, you are getting into the game of potentially picking winners among sort of commercial competitors which is also very tricky. So I don't have an answer to that question, but I think that if the priority is to get more done faster, the focus should be on finding a way to leverage the existing commercial solutions in a way that's kind of fair for lack of a better term because there are many solutions there and the profit motive does produce fast innovation and better solutions faster.

MR. MACBETH: The comment I was going to make is actually I don't think for credit derivatives or other derivatives, it's too difficult from a perspective of instrument identifiers. They do exist, and I think they can be fairly readily aggregated across markets. I think the complexity is really going to be about understanding the derivative and understanding what that might mean about pricing potentially. So I don't think the cross market's view, as long as you've got access to the full set of data, is the issue but having -- the harder issues potentially are the completeness of the data. Particularly again, global markets not all traded within the U.S. boundaries. There's a stretch to get there and the aggregation is probably the challenge more than actually the attribute relating to a security. That's probably not the challenge.

MR. PRITCHARD: I'd agree with what

Jeremy said. I think the truth is that the banks have largely solved a lot of the counterparty identifier and relationship problems for themselves. They've had to do that as part of their effective counterparty risk management. Now naturally they've, like a lot of the OTC space, they've all done it themselves differently, adopting their own conventions or with their own piece of technology. But there is a lot of value there already in the market and finding ways to leverage that is probably going -- you'll benefit getting this solved quickly.

MR. SHILTS: Anything more on this? We'll move on to the next question. David?

MR. TAYLOR: Let me tee up something that's maybe at the heart of the data reporting thing which is, what data should we ask people to report? Let me pose the question this way: If the commission, rules of the two commissions, ended up requiring reporting of all the fields needed to fully confirm the trade or the deal -- and by confirm I mean I guess in the classic sense of both sides have matched every detail of the deal including at least a minimum specified list of fields -- do you all think that would be sufficient to fulfill the regulatory and other purposes for which the data is needed? If that's not the way to do it, what's a better way?

MS. SEIDEL: Can I just add to that question as you're answering? That also raises the question of when should the reporting occur and sort of should it occur when a trade is done? After confirmation, the full loan confirmation that David was talking about? Or some other time? So as you're thinking through, I guess that's one of the other questions as to -- given the purposes of reporting, when should it occur?

MS. LEONOVA: It is also based on when the transaction happens as it's cleared and executed or whether it is bilateral and negotiated as action.

MR. GLACE: In response to the kind of when, the leaner the data, the faster you can get an accurate report out. The richer the dataset you require, the more risk you have of misreporting data too early because it hasn't gone through some econ from process or something else that helps you validate that you have a good trade and it's not an out-trade. So if you go too fast, you run the risk of a lot of out-trades getting resolved or sort of a lot of adjustments to the transactional dataset. But once you -- if you wait and traditionally -- I don't think it's any more than 2-4 business days for standard products that you can have a fairly complete confirmed trade that you can, in fact, submit. Now again, this goes to the level of sophistication of the entity because again, from the end- user perspective, some people -- you could have a deal with a municipality where you have to wait until the commission meets next week to get a transaction confirmed. I mean, going to the extreme, that's sort of -- but a standard trade in sort of standard products should be just a couple of business days and you can get a fairly complete robust dataset that's confirmation quality I think. But again, to the extent that it's -- you're dealing with further and further away from people who sort of transact on a daily basis or a high-volume basis, now you're looking at a totally different class of participant who may have to have the lawyers figure out the rest of the contract details before they can adequately fill out a form. But again, I think there are a lot of different worlds here.

MR. TAYLOR: I should maybe clarify one aspect of the question. I didn't mean to imply, although it's an interesting question, should each deal be fully confirmed before it comes into the SDR? That's worth answering, too. But I meant more was, should each party be required to report all of the fields that would be needed to do confirmation? I'm not getting yet to the question of has it been done yet? If that makes sense?

MR. DIXON: I think to that point, though, it's important to answer. We have to understand where that is to answer the when. You run the risk -- and there's a price to pay for that -- that if you get it too early, you don't have the information you need. There's a price to pay or penalty if you will if you get it too late because it's not actionable. And then what do you do in between which is a reconciliation process where you say, oops, that's an erroneous transaction. Now we just squared it away. It's correct. And so it seems to me that you go kind of as late in the life cycle as possible where you say there are reasonable assurances here that this has been done. Then the dataset can float up.

It also poses an interesting question if you're trying to do it in more real-time, and you're trying to actively run a liquid and transparent market. Then what is the intervention of the regulator in the middle of that trading activity for lack of a better way to describe it. And then now what? And what's the trickle-down effect of uncertainty that you don't know that someone's going to reach in. So I think the market participants who understand the rule sets, particularly at exchange bases for such because each exchange runs it a little bit differently, being familiar with that is helpful. And I think it goes back to asset classes again and the types of transactions. And that's probably the best place to start because each one of those tends to be a little bit different.

MR. PRITCHARD: I think going back to the earlier point about the two sort of competing objectives of price transparency versus systemic risk monitoring, and from the perspective of a software service provider, it's really important to be clear what the requirement is. If we're trying to design the data architecture and answer these questions, those two requirements set up the most amount of tension to try to solve both of those with the same set of answers to the same questions. And I think from TriOptima's perspective, we're more on the sort of systemic risk monitoring end. And answering the question in that scope, we would then work backward from what aggregation -- what's the top-level aggregation report you want to see, that's the important data to capture for every single trade across the landscape. Then, if it is a standardized trade, capture a reference to another electronic venue where it's matched to all that full dataset. Then any other identifiers that it has in other venues around the market are very valuable to capture as references.

MR. MACBETH: I think this --

MR. BARNUM: Just one brief thing, sorry --

MR. COOK: Go ahead, Jeremy.

MR. BARNUM: Sorry, Rob. One more brief thing. I think the question was asked, what should each party be required to submit? And I think one thing that we feel strongly about, which we think should be relatively uncontroversial just for the sake of efficiency, is that individual market participants should be able to satisfy their reporting requirements by leveraging some piece of market infrastructure which is serving some other purpose and have that piece of market infrastructure do the reporting for them. So I think there was some mention before of middleware confirmation services. If that service provides a reporting facility, then it should be possible to meet the reporting requirement by establishing the use of miniature trade to that service in the same way that those services often submit to the SDRs and similarly that should constitute satisfying the requirement. I assume that's obvious, but I thought it was worth saying since obviously that will avoid a lot of duplication of submission and will leverage existing insufficiencies in the market.

MR. CUTINHO: For cleared trades, what we do is -- we do -- at submission time, we capture the trades. We also capture its life cycle throughout the process of clearing. And we maintain a holistic view from that standpoint, and we provide it to our regulator. So I think we see ourselves continuing to do that for the cleared world.

For the uncleared world, I do agree that to make it efficient for market participants, it's best to actually use not just one but any execution platform if you have one. If they can report, then that essentially captures the match. For things that are done over paper or more manual, that becomes an issue. So I think that's where the crux of the question is. What do you -- where does the match happen for paper-related transactions? I suppose that's where you were coming from, whether they should report -- each party should individually report because there's no electronic.

MR. MACBETH: So I'd just say -- I think we said this with the full legal record and the minimum. It sounds very plausible, I think, to Jeremy's point, using existing infrastructure makes a lot of sense. Then when Irina came in and talked about whether it was -- how it was executed -- and I think you'll find that some of these services are actually used even by electronic execution venues. In essence, they will have the venue submitting almost a pre- match record. They very much think they're then in the rooting and legal wrapper business, not so much in the matching business. And so you will see almost autonomous through that process. And in general, the latency in the confirmation process is relatively low and pretty compliant with the non-real-time requirement.

I think the reason -- another thing as well, we've talked a little bit and maybe someone else talked about cleared and uncleared separately and the requirements are I think fairly consistent in the act across the two. They should go through the same types of reporting process and reporting requirements, although now I think CCPs can register as SDRs. I rather think there was a statement in the act somewhere. So there are -- again, back to the overall model, again, some of these providers that act as these middlewares will feed clearing platforms and audible clearing platforms potentially, so that model can also accommodate some cleared trades, too.

MR. PICKEL: Yeah, I was going to add that at some level, the easiest thing is just to dump the confirmation details on you, but that raises the question of too much data in your laps and how do you weed through that and get the -- if we accept that it's -- that we're going to be looking at enforcement and systemic risk monitoring, how do you weed through that to get the right information? So I think it's almost a question back to you. What do you need? Particularly where we've got systems like the DTCC system on credit derivatives, the reconciliations that TriOptima has, anything that gets developed in a SEF-type platform. The information, as we say, the data's going to be there. The question really is, what is the meaningful information that you want to have?

MR. MacBETH: Could I add one final thing, just something that has come up with some regulators with RCs? The idea of a quality standard on the data. So you could -- you know, you talked about when we get a potentially prematched, you know, our repository would actually flag the trade as unmatched at that point and, you know, that could be communicated to the regulator so they understood that the quality of beta they had. And, potentially, you know, any kind of matching that had been done to a point of time, just to the add-on.

MR. TAYLOR: One quick follow-up to a point somebody made earlier talking about paper transactions. It is a small point but may be an important one. I think we've sort of been assuming that -- I don't know if this category exists -- but that even, you know, if a counterparty is doing swaps in his basement in his bathrobe, he's going to have a PC, and he's going to keep records in it so that in fact all of the reporting by everybody, no matter how they spoke, can be electronic and just would be electronic even if it's from a PC over the internet to the SDR.

Is there anything wrong with that assumption? I mean can we assume that there literally is not any paper?

MR. PICKEL: Well, I guess it depends on

what your meaning of electronic is. Yes, I think, you know, yes. These days a lot of the if not all -- and generally -- and the others can talk more specifically in terms of how they run their business. Yeah, I mean the communication, the e-mails, PDFs, the information goes back and forth and may ultimately be a signa-telectronic signature on that confirmation. So there is that type of electronic record.

I guess what we're trying to -- what we're anticipating, and I think we've done work on, as ISDA and the repositories, and the clearing houses and others have done it as well, is to, you know, go to that next level of rich electronic information that is actually usable and manipulable so that you can run reports and analyze it.

So, yes, it is -- I think for the vast majority you will have electronic records. People may print those out, put them in a file somewhere, but there is that electronic back and forth. But I think the real focus would be to go to the next level with electronic.

MR. MacBETH: Yes, I think that the PDF comment is kind of well made, right. So, you know, some contracts can be confirmed electronically in non-fields; some, you know, contracts exist as hundred-page documents. But in general they're sent by fax, and at that point they turn into something electronic. And so, you know, but really to actually have data that you can analyze, yeah, you know, you will need to pull out some fields from those and potentially that isn't, you know, a process that runs on that today in the market necessarily.

MR. PRITCHARD: Sorry, we were just, yeah, add to that. We totally agree that, you know, the tail of the market where the highly bespoked trades are. For example, our exposure management solution allows you to actually upload the PDF of the components so the other side of the trade can view it online. And that's honestly not ideal, but that works for the very, very exotic end of the business.

MR. SHILTS: Okay, I think we'll move on to the next question.

MS. SEIDEL: I guess it's sort of a follow-up and what we just sort of got into, the question about if all report -- if reporting was required to be in an electronic form and not PDF, as you noted, but some sort of manipulable, usable electronic form, you know, how would that impact, you know, the current practice, and is that something that, you know, should be required. And, if so, how does that sort of fit into the different types of transactions?

MR. TAYLOR: And if I can add one aspect to that and ask Raf to start with it, because I think we had an earlier conversation about this. If it's -- how to put this -- if it is possible for the repositories to accept data in whatever form it's sent so long as there's, you know, every line of text is a different field, is that a potential solution to this?

MR. PRITCHARD: Okay, yeah, that's a couple of questions there. I think to the earlier point where you're covering the whole landscape, you know, some trades are electronically confirmed in large volumes on very bold platforms; others are traded in much smaller numbers and more complex, and may still be on a PDF.

But our experience looking at the 6 million trades that we regularly reconcile, of course, the market is that there is a core set of key financial identifiers that you can capture in all cases, just the motion of the trade and the currency of the trade, and the tenor of the trade, that sort of thing. And that can be record-based electronic capture. If it's a very complex trade, then you might have some unstructured form for the rest of the data. And that's, you know, how we covered the -- how we managed to combine both the standardized trades and the more complex ones in a single central platform for exposure management.

And then the second part of the question that it is where you then request those fields to be captured. Can you allow some flexibility in how that the party, the respondent submits then.

And our experience of that is, is but you can, you have to tell him he can't send it as a PDF. There has to be some fort of record-based, one row line-item based submission, but the advantage is to get it to leverage in order to make it a piece of infrastructure that they already have. And, typically, it's actually advantageous to get an ultimated extract from an existing piece of infrastructure rather than something that has been manually massaged with the potential for introducing errors that that brings.

MR. CUTINHO: From our perspective I think our concerns are necessarily the reporting; our concerns are essentially, if there is a data repository, then it's open, fair and transparent access. It's, I think, very important.

The second thing is, we don't want the data repository in effect to impede on innovation. So things that a clearing model can do always can provide services so we don't want an external, if there is a data repository, to impede that.

And in order to be less disruptive, I

think if there is a data repository it should be open to receiving multiple formats. There is a different between reporting things into the data repository versus providing a view to the regulators, so from the regulators' standpoint, of course you want everything to be easy to access, view, and analyze. But as far as preventing disruptions to the marketplace, it should actually be open to accepting multiple formats rather than imposing one on them.

MR. GLACE: And I also think that any complex deal that may really reside at best in a PDF. You know, if you have to satisfy some requirement of putting a notional out there, at least there's some kind of safe harbor that this is your best estimate of fulfilling that requirement so that somebody doesn't come long later and say, well, I reread the contract, and that notion that you put down really does not meet the requirements.

So again, from an end-user standpoint where things can get really complicated, you'd also like to have sort of a best efforts safe harbor, for lack of a better word, that says you've attempted to model this thing, given the framework limitations to satisfy the reporting obligation.

MR. DIXON: I'd just like to dove on that point because I think it's very important that certain transactions are going to be subject to delivery, and delivery can be adjusted. And that doesn't mean that that was an erroneous or improper behavior of the transaction. It kind of is that it is. And so, therefore, you need some type of audit trail, if you will, that can link modifications to certain data fields, particularly volume as one example, that you have a look-back where you can go in and adjust the volume.

That can also be a bit difficult when those transactions become quasitransparent. Someone is now acting on that information thinking that it isn't subject, and therefore you can get some distortions in the market wherein somebody thinks something was, quote/unquote "mispriced."

So I think it's' important to take a category and kind of park that in a box and say really whatever you want to do until it's done and dusted. And maybe it is you don't do anything with it other than go on record to say that this is subject to change. And once it is delivered, then I think it's straightforward.

Again, I would just say the audit trail of modification might be important, but then that just increases the dataset that you have to look at as well.

MR. MITCHELL: Kind of along the lines of what Mark was just talking about, for what life cycle events should be captured in the SCR, and are there any life cycle events that would not need to be captured? And what timeframes should those be input into the ASVR?

MR. PICKEL: I think it's important in any life cycle event -- and we had talked about this when we came down to meet a couple of weeks ago -- is a broad concept, and I think we need to, you know, maybe parse out a little bit.

There are any trade has a number of events during its life. Most, you know, typically, and interest rates go up, we'll have many resets over the life of the trade. Those are events that are fully anticipated in the terms of the transaction, when the transaction is done. And I don't that, you know, you don't need a, I don't think, update for the LIBOR fixing every quarter because that's out of the marketplace, widely available. Anybody can, you know, apply that.

There are on the other hand, and this is particularly true in the creditory space, somewhat true in other product areas, there are those events that really go to the very core fundamental nature of the transaction. Does it exist? Does it exist in the same form that it existed before that event? So the credit events which actually lead to a termination and settlement at the trade, a succession event which leads to a change in the underlying reference entity identity. And there are a few other things that might occur.

In other product areas, you may have force majeure type events which will lead often to a termination, maybe to a different pricing, reference for a trade, those types of events. Those are probably more going to the core of fundamental nature of the trade as opposed to the ordinary course, events that are anticipated in the original terms of the trade. And I think it's important to distinguish between those two because otherwise you'll be getting -- you know, you'll be getting tens of thousands of resets on a weekly basis that come in just by virtue of the number of interest rates swaps that are out there, resetting, you know, whatever the LIBOR rate is today.

MR. MacBETH: So there -- and there is a related point, and easy, you know, the resets, I think, had a level of two granula. But there is a point that any fixing, you know, transaction has some implications of its valuation. So it's something that's been determined in the past has an valuation impact. And so, you know, that is a piece of data that is required, you know, to evaluate transactions.

So again, the valuation model, you know, the market discussion in terms of the data, whether the needs to be independently sourced or, you know, is provided by the participants and, yeah, may determine some of those requirements at a veto level. But I, you know, I agree absolutely that they're not the events that are the traded events that are really subject to some of the surveillance activities. But I think, you know, to really answer the detail question about some of the real granular datafields, you have to answer some of the questions about how you might source evaluations of products.

MR. PRITCHARD: I think it goes back a little bit so the contrast is in the listed markets and the OTC swap market. And in the OTC swap market we have a much, as we've seen, lower turnover of new trades, but we have trades that last a lot longer in terms of years or decades, and we can see the, you know, in the IAG crisis, you know, those trades have been around for sometime. They weren't recently put in, they'd been around for years.

And so, you know, potentially the issue across the whole landscape of post-trade events is one that needs to be fully covered by anything monitoring systemic risk. And in our experience, providing exposure management is that it's challenging to enumerate exhaustively all the potential post-trade events that could happen, especially on the more complex trades that are out there, and the way in which for the purposes of exposure management on the firm and party level we have worked with that, is by having the parties resubmit because the trades come from an automated source. It's relatively cheap and easy to resubmit the population from the core books and records of the firms on a regular basis. And that way obviates the need to exhaustively enumerate all potential events that you need to be notified of.

MR. CUTINHO: From the -- one of the

things to note, just to add -- I think Bob raised a very good point about what is an event, and it is important to define that. Some of the things to note are things like resets, things like credit event processing, and within a cleared world is actually important to be internalized within the CCP. It cannot be external to it. It has to be internal because the guaranteeing process and you're managing the risk.

But in an uncleared world, of course it's very important -- I mean, whatever services are provided by external private parties are for a private benefit, which is essentially resolving the event in a normal manner.

So if you needed the information, you could always find the information you wanted that are -- if the events are essentially transfer of trade or transfer of ownership, you know, for a regulated market or for a cleared market regulated by a regulator, we do provide that information. I think you would require the same thing for a swap (inaudible) or prospect.

MR. TAYLOR: Let me pose a slightly different question. There are various parts of Dodd-Frank that talk about which party should report, depending on the status of the parties. You know, if you have swap dealer and the other party is not a swap dealer, the swap dealer reports, and there's a sort of priority system.

Some of our -- I won't say we have experts in swaps, but people who know a little more than some of us to begin with and some of our data people are telling me that there might be lots of advantages to having both parties report either with respect to initial, you know, data at the time of the initial transaction or life cycle data. And I'd like ask -- I mean here we have counterparties and repositories -- what would be the advantages and disadvantages of having one party take on the reporting obligation versus getting reports from both parties?

MR. BARNUM: I'll take a crack at that one. I think that first, I think almost all of these questions need to be broken down into the answer which is the best answer for the purpose of SDRs, in terms of big-picture aggregate oversight, especially for systemic risk purposes on the one hand. And on the other hand, the answer which is best for the purposes of the real time post-trade price transparency mandate.

So I'm not sure where the notion that two people submitting independently might be useful comes from, but if I were to guess, one thing I would imagine is that people might say if your objective, if you take trays for corporate bonds as an example, which obviously the SEC is quite familiar with, by virtue of the fact that both side have the obligation to report, whoever reports sooner creates your kind of, well, that must have been the latest the trade was done, and, therefore, if the other person reports essentially later than that, then that establishes that that person has reported late.

So I think that's one argument I can see in favor of independent reporting for the purposes of that requirement. I think for all other purposes, I think independent reporting carries a significant risk in essentially duplicating a version of the process that the DTCC does, that (inaudible) is quite familiar with, which is the kind of double-blind matching confirmation model, which is, frankly, really painful, because almost invariably the information gets reported as very rich. Some subset of that is information that people who don't really care about very much and don't keep sufficiently precise records. And as a result, you get a lot of spurious breaks in the independent submissions which are of really no significance for regulatory purposes.

So I guess I would refer back to my earlier comments, which is it would be really much more efficient if people were allowed to satisfy the requirement by essentially outsourcing the submission to a middle or lower provider, and from the perspective of dealing with the timeliness issue, you obviously wouldn't want to create a situation where people could avoid the requirement to do post-trade public reporting in a timely fashion by sort of nefariously conspiring to not affirm the trade soon after it was done.

That's easily addressable since those services nonetheless require each party to interact with it independently, that if one of the two parties hadn't engaged within the time window, then you could get single- sided submission for post-trade transparency purposes.

MR. TAYLOR: And I think on that last point it's likely that business conduct standards are going to come down on people who don't report it in a timely fashion anyway.

MR. MacBETH: But, say, the thing, you know, we value from the idea of both parties being involved is this quality control, but, you know, the statement that that can come in matched or, you know, affirmed if that's the model of one party, and it submits, another party attests to that, and that comes down as a match trade, or it comes, you know, from something higher up, and it's a safe. But again, it's prematched. You know, to ask that is, that is the highest quality, you know, dates that we can receive, and we think that is very valuable. How that then ties to the, you know, construct within Dodd-Frank of who's reported that, I'm not sure. But, you know, there's huge value.

And there is, you know, there's huge value of having participants in the system in terms of identifying who they are and dealing with some of the data privacy issues. And again, if you're going to operate this globally, and you care about things that impact your markets that are outside, you know, again the United States, you will need provisions like that to aggregate all that data because you will hit data privacy concerns that can only be dealt with by contracting with some of the polities, and some of them can't be dealt with.

So, yeah, the other -- this is the second advantage I learned of by the quality is potentially the data completeness.

MR. GLACE: Excuse me, please. You know, the important part for us again is have users who are satisfying the reporting obligations, and so, therefore, I would sort of again recommend it. If we've used an outsourced provider, we've talked about, you know, separate outside confirmation processes as well, it would be nice from an unusual perspective to say, you know, okay that lot is then reported, and, you know, we've got documentation and process behind it. So again, you know, to me to have that process go on, which is a useful business process, and then to duplicate it again in some other fashion is just an additional cost.

It may not be, you know -- it may just continually adding to the cost and to the quality of the total reporting burden has been satisfied because, you know, some compliance officer or risk manager has to ultimately say we've satisfied our reporting obligations, and here's our checklist and here's how we've gone about it.

MR. PRITCHARD: As a software solution provider, obviously it's beneficial to get two records that you can match together. You can, you know, from the software point of view, do more verification. And, for example, the counterparty standardization that we talked about, it's easier if you're getting both sides of the trade to make that mapping and translation.

But to Jeremy's point, this is very much focused at the sort of systemic risk end of the function of the repository rather than the real-time reporting.

MR. MacBETH: I've also experienced the MIFID regime, not in the current role I'm in, but, you know, in Europe. And we've, you know, we found it difficult to control that process as a party submitting to that simply because there wasn't the -- a feedback loop from it. And so, you know, in talking to the using existing mechanisms that have, you know, in effect feedback loops, so if you don't confirm to your counterparty, your counterparty will provide you the feedback, whereas, you know, typically under MIFID, if you admit to report, you admit to report. And, you know, you may or may not find out about that later.

But, you know, it's very difficult to order and control that, that stand alone reporting process. And, you know, I actually think maybe three times I've found myself doing a full review of our MIFID reporting at various times, you know, and I kind of, you know, like for my former life. So it's difficult.

MR. PICKEL: And I think you want to get the -- if you want to get those two strands to come together, you know, with all the information you're going to provide and all the other things you need to do, I would think that this is one area where you can probably leverage off of what's been built in the industry where there are those platforms where people come together, whether they be SEFs or some of the providers around the table, and take that information and then not, you know, not have to take that burden on among the many ones you're taking on.

MR. SHILTS: Moving on to the next questions, I guess following up on some comments that have been discussed already, but just generally I think somebody had made the comment about providing flexibility for the repositories to take in data in various different formats, maybe to get some more thoughts on the practicalities of that given sort of where the industry is today, and then sort of, is there the ability to take the guide in all different formats and sort of -- I don't know the right, correct term -- but standardizing, right, not in terms of being able look across the various -- all of the information coming in to standardize it?

MR. PICKEL: And I guess that here again, similar to my last points, you know, there are these factories, these processing bits, whether it's TriOptima or DTTC, or the SEFS that are taking some of this information in and, you know, producing some output. And I think you should be most focused on what the output from those processes are and largely leave it up to the infrastructure to, you know, building something that they think is effective to produce the output you need.

You know, again I could talk about it a financial products markup language which is one possible means of that output, but, you know, again it's these infrastructure components that have put a lot of work and effort into being able to be responsive to their clients in taking in information in whatever format the clients may have. That may, you know, that may evolve with FPML all over time, which is a pretty rich standard. But we know that there are platforms that utilize the information in other formats.

MR. PRITCHARD: I think, fundamentally, in the OTC swap landscape, there are going to be some contracts out there where it's going to be frankly subjective as to how to submit them. And that's just the reality that the comprehensive nature of the SRD faces. I think from our experience providing exposure management, we do what we call normalization whereby we allow the parties to submit in a format that has certain rules about it, but it's as free as possible so that we can get data from their automated services and leverage these other platforms.

But, truthfully, what allows us, a great part of what allows us to make that work, is the fact that we're seeing both sides of the trade, and that it's kind of like the Rosetta stone: You get is in another language, and you can work out what the translation is. And so to a degree it's based on that, but it does allow the parties to use their existing automated systems and not have to build to new prescribed formats, which is costly and needs maintaining going forward.

MR. TAYLOR: I think I'm hearing an answer to that question, but let me just confirm that I am. If we -- if the rules contemplated a setup where we did not prescribe to the counterparties, what data standard or what language they should be using to report to the SDRs, if all we said was the regulators want to get from the SDRs using this data standard is that most workable for everyone, I think I'm hearing the answer to that is yes. But --

MR. BARNUM: Yeah, I think the answer is yes, but I think that SCRs should be, I would think that SCRs should be permitted if it winds up being most efficient to require that the submissions to them be in a certain format.

In other words, there's kind of three choices, right? One is regulator says when you submit to the SCR, it must be in this format. That sounds like a bad idea. The next option is SDR can just -- can consult with its constituencies and agree a format. That seems pretty reasonable to me. The third option is SDR is forbidden from proscribing a format to its constituency. That seems like it's requiring a degree of flexibility on that part of the SDR which may not economically in the interest of the community at large. It may be sort of satisfying one particular party's desire to submit a certain format and that expense is going to wind up being shared among everyone, I think for very little collective benefit.

MR. TAYLOR: We touched on this question

before, but again as a follow-up various pieces of our discussion here have talked about, you know, the utility, for instance, of letting counterparties satisfy their reporting obligations through using a third-party confirmation service that, you know, then would report to the SDR, would, point taken on that one.

You carry that a little further, we raised the question earlier and I don't think entirely answered it: Should only confirmed trades come into the SDR? And this, obviously, you know, there's a time aspect to this, and the time aspect is probably most urgent, if you like, the more bespoke the transaction is. I mean something that's executed on a platform or cleared, that data will come quickly. In any case, it may come less quickly, you know, if it's truly bilateral OTC and some confirmation has to be done.

What are the ups and downs of should only confirmed trades come into the SDR?

MR. MacBETH: So I think nonconfirmed

trades should come in, and again we talked about this in a quality standard. The reason I think they should is because they're information, and they could be very materially information to the picture that the SDR presents with respect to training positions.

Now, you know, there might have to be a caveat associated with that record to say that it isn't as secure as others.

Now again, the problem is this then becomes an opening of the confirmation process to the SDR, and there is, you know, there is noise in that confirmation process. There's messages that are sent that were sent in error. They weren't, you know, they need to be amended, and there needs to be some ability to cut out that noise. But I think at a certain point in time, the SDR should take unconfirmed trades if it's coming from a platform into the SDR, and have that information available to report, because potentially that single trade could be material to the information given.

MS. LEONARD: But does it mean that you either also have to have some system of error resolution of the confirmation finally arrives to you?

MR. MacBETH: You would have to be -- have to cancel any, any other arrangement.

MS. LEONARD: Do you have this type of systems? Do you have experience in dealing with that?

MR. MacBETH: Today that happens. You know, that happens. We have access to unconfirmed trades as well as confirmed trades, and we can report on that, and we have an (inaudible) cancel and correct methodology that can work. But I do, you know, I do want to caution, I don't think, you know, where transactions were clearly, they were quickly corrected. I'm not sure they should all be watched through entirely. So again, it will point to the timeliness, point towards the SDR. You know, the real-time situation will need a different model than that. But the, you know, core reporting in the SDR I think should be informed potentially by unconfirmed events to allow accurate data.

MR. PICKEL: I might just ask a question of both Steward and David. By "unconfirmed trades," I mean there are the trades with the DTC warehouse, there are the trades that are actually confirmed through the system and go in as the so-called gold copy. There are other trades that go in there that are not those types of trades, but they are -- nevertheless a confirmation exists of those trades, and it is, you know, I think you're probably aware with the efforts made by the industry over the last five years working with the New York Fed, the time between execution and confirmation has been drastically reduced across certainly credit, interest rates, and even in other areas.

So that the number of trades for which a confirmation, meaning both parties has signed off on the confirmation, doesn't exist is a relatively small number. And I guess my own personal reaction is sounded out that the membership on this is that better to wait that extra day or two to get a properly, fully confirmed trade available to go into the warehouse than to take in information today that might need to be corrected the next day and the next day before it's finally confirmed. But that's just my reaction. That's distinct from, you know, the confirmed trades that go in which are in your case very rich in information.

MR. TAYLOR: And I take it part of your point is that any downside in timeliness or of delay has in a sense already been minimized because of the majority of trades are being confirmed quickly anyway.

MR. PICKEL: Oh, that's right. And, furthermore, again distinguishing, using the Barnum distinction if you will, between the trade information, you know, about the pricing, the real-time price reporting versus the information about systemic risk. I mean keep in mind AIG did not put those trades on over the course of three days; they put them on over the course of several years and the risk built up. So you'll be able to see that build-up and risk.

MR. BARNUM: Just one very brief thing, because I'm not sure if a question is going to be asked that's kind of a loss for address, and I actually think it's quite critical, which is that it is important for the regulators to engage with the SDRs and the various providers, especially in connection with post-trade transparency, but also generally on the question of price-forming versus nonprice-form trades and the related question of, like, events switch which are trades and events which are not trades. And we're not going to have time to discuss that in detail here, but I think that those two questions are ones that we as an industry have struggled with quite a bit, and I think people like Steward at savvy for having an intimately familiar with the challenges that they create.

But I think from the perspective of avoiding a signal to noise ratio problem in the regulatory community, especially in connection with surveillance, it's going to be very important to think carefully about that question and ensure that the standards that emerge include this kind of attribute which is price-forming/nonprice-forming and, you know, a post-trade event which is actually the same economically as a trade, like, for example, an unwind or a partial unwind versus post-trade event which is not a trade, like, for example, an amendment of a fee that was booked erroneously.

MR. SHILTS: And, Bob, just a quick question. You had mentioned you thought the majority of the deals are confirmed quickly. Just like in a time frame, what did you mean by that?

MR. PICKEL: You know, I don't have -- I could get you the statistics that are reported on a regular basis to the regulators, but, in, you know --

MR. BARNUM: Actually, Bob, sorry to interrupt. Sorry to interrupt --

MR. PICKEL: Yes?

MR. BARNUM: -- I just happen to have an

answer to that question. I think the guys -- Steward, you may have this as well -- but some work was done to look at the question in rates, what was the time lag between submission and confirmation? Were people using the, I guess, the whatever you want to call it, the swaps wire workflow and rates, and apparently the average time from execution to confirmation was something like 11 minutes.

MR. PICKEL: Yeah, we can get a lot of deep information and data to you on that from the efforts of the last five years with the New York Fed.

MR. PRITCHARD: I don't want to answer that specific question, but going back to the earlier point, I think if you get data, then you need to be able to get corrections. That's just the reality. We get 6 million trades on a regular basis, another 4 million a day, and you just got to be able to handle corrections, and you've got to be able to handle lots of them. So that's a separate requirement, I think, on the repository.

So, you know, and if you want confirmations, there's lots of good initiatives that happened around speeding up confirmations, and you've heard about the benefits of that. But from our experience of exposure management, parties want to get on with that task independently and have the confirmations proceeding. It may be already done, it may not be already done, but we wouldn't see the benefit of making submission to the repository dependent on confirmation having already happened.

MR. SHILTS: We're nearing the end, just a couple of minutes left, so if anyone has any other final comments or observations to make?

MR. CUTINHO: I think there is a distinction between affirmation and confirmation. There is electronic affirmation taking place in some clearing models such as ours. We don't require a legal confirmation before the trade is submitted for clearing, especially if it's a new trade. So we need electronic affirmation, and then the legal confirmation is the one that is disseminated by the clearing house.

So it's very important to distinguish the two. An affirmation is bring two people together and you can actually have a match in that case; and all circumstances for bilateral trades there is an extra step of confirmation which actually goes the legal document enforcement.

MR. TAYLOR: Is that the -- excuse me, is that the --

MR. BARNUM: I would just briefly like to chime in there.

MR. TAYLOR: Go ahead.

MR. BARNUM: Sorry, I just -- I'm of the opinion -- it's really of a personal one, but the distinction between affirmation and confirmation is to some degree a distinction without a difference. And so I think that, you know, actually it's an important question for the regulatory community to think about because I wonder whether this has ever been tested, but in practical terms it's a legal matter. If we're saying that affirmation effectively represents full de facto agreement between the parties, then the distinction between that and conformation becomes moot, and there's an argument that we shouldn't be building on an infrastructure that presumed to be the existence of two distinct processes.

MR. TAYLOR: I'd just ask a sort of a wrap-up question which is how long will this take? And I know you may be reluctant to answer that because you might think we're going to cut whatever number you give us in half. But maybe to avoid kind of giving it a number, we've been hearing a lot about existing systems off of which we can leverage, and I think that's been very helpful to think along those lines. But if you have a view about implementation time frame, that would be helpful.

But also if you have a view about what we could do to resolve some of the issues that will facilitate quick implementation -- in other words, I know a lot of this will be the answer is going to be it depends on what you're -- how long will it take, it depends on what the system looks like. Are there basic design elements of the system that would be helpful to address sooner rather than later, even if all the details aren't worked out, to help facilitate your planning and the more speedy implementation? I'm just trying to be brief.

MR. DIXON: I'll take a stab at it. And the first one would be, what do you need and when do you need it by? And the second comment would be, what's readily available. So if it's readily available, then that makes it a lot more straightforward, and then the discussion could be around how and when that gets delivered.

When we get in to the greenfields of trying to understand what's next and what's new, I think we need to be very cautious and probably take our time and, you know, crawl, then walk, and then run. But I think that if you look at the legacy of systems and legacy of work that's been done in the industry, there certainly are some answers available there in the shorter term.

I think if we attempt to boil the ocean and look at everything, it'll take forever, and we won't end up where we want to be.

MR. CUTINHO: Um, sorry. I think the important question and scope of the what is the true scope, and the second would be, how does a regulated market or clear group (inaudible)

MR. PRITCHARD: A real quick, then, just I think it's just two parts. One is as a provider what requirements you're putting on us as a solution provider; and secondly, from the industry point of view, the respondents, what they need to do in order to get ready to meet those. Really, I don't think you probably want to get the provider to do -- to make it easy for the respondent.

MR. PICKEL: I guess I'd point to a little bit of recent experience, namely, the process that's been going on over the last five years with the New York Fed where -- and I'm not suggesting it's five years is the answer -- but I mean that's what a very effective collaborative effort between the industry, broadly speaking, and the global regulators. And if you look at where we were in September of 2005 versus where we are in September of 2010, you'll see a completely different world. And so I think there is some, you know, some hope that this can move along very quickly with a, you know, a commitment across the industry and working very collaboratively with the regulators.

MR. MacBETH: Yeah, the elapsed time delay that the warehouse was about -- was about a year, and it was a very concerted effort fairly managed by a group of the external consultants and, obviously, by the lower resources from the participants themselves.

So there was a pretty -- you know, that's one asset class that was trying to get into, you know, high- quality dataset where they could say it was their official legal records for those trades. That it was a practical experience, and the level setting and the expectations and the requirements, I think, is the key, because I think, as, like, for a service provider, I think might have different perceptions about, you know, where we're trying to get to. So I think -- I think that's absolutely key.

And then, you know, there is some tensions about what the right solutions are and which components to use and reuse. You know, I think it's important we don't throw away what (inaudible) exists, and, you know, we do -- we do build from that. So those are the points for me.

MR. SHILTS: Any other --

MR. BARNUM: Yeah, I would say -- yeah, my answer to the question would be, 1, apply an 8020 rule, do the easy stuff first so that we can -- there'll be, you know, it will be easy stuff. There will be lessons to be learned which will then make the difficult stuff less difficult, and it will allow significant progress to be made on the easy stuff, which I think will be helpful for everyone.

And the second point I would say is that to facilitate speed, an early decision, you know, I would argue should be made to create a construct that allows private sector solutions to meet the requirements so that people feel like they have commercial incentives to pursue solutions. That will speed things up much more than if everyone's waiting around to be told what to do.

MR. SHILTS: With that, thank you very much, and we thank all the panelists for participating today. We're going to take a one-hour break, and we'll start back here on Panel 3 at 1:45. Thanks again, everyone.

(Recess)

MR. SHILTS: All right, if everyone wants to take their seats, we can get started.

Okay, if everyone takes a seat, and we'll get started here.

All right. Well, then, let's get going. I want to welcome everyone to the Panel 3 for today's roundtable, and this panel is going to focus on models for real-time transparency in public reporting. Some of the things we want to discuss on this panel are the benefits of real-time, public reporting, the entities that would be responsible for such reporting, assuring the anonymity of market participants and the appropriate media for real-time reporting. I'd like to start out by going around the table and letting each of the panelist identify themselves and where they're from. And, also, just press the button. See the red light on, and you're able to talk. Now, as we go through the panel, when someone is speaking, if they could just say their name so that others that are watching I'll know can identify you as you're speaking because they can't always see the name card and things.

So, with that, and, again, I'm Rick Shiltz, director of the Division of Market Oversight at the CFTC.

MR. COOK: Hi, I'm Robert Cook, director of Trading and Markets at the SEC.

MR. SHILTS: All right, and, with that, let me start going around the table, if everyone could identify themselves and who they're representing.

MR. MASTERS: Sure, I'm Michael Masters

with Masters Capital Management, and representing Better Markets.

MR. HARRINGTON: Hi, I'm George Harrington with Bloomberg. I look after Bloomberg's global credit trading business.

MR. BERNARDO: Shawn Bernardo. I work at Tullet Prebon, and I'm representing the Wholesale Market Brokers' Association.

MR. AXILROD: Pete Axilrod, DTCC. I look after our derivative services and business development.

MR. TOFFEY: Jim Toffey, Benchmark Solutions, we focus on pre-trade transparency solutions for institutional investors.

MR. STEINER: Jeff Stiner with the CFTC, Division of Market Oversight.

MR. LEAHY: Tom Leahy, CFTC, Division of Market Oversight.

MS. SEIDEL: Heather Seidel, Division of Trading and Markets the SEC.

MR. GAW: Michael Gaw, SEC Division of Trading and Markets.

MR. GIDMAN: John Gidman with Loomes Sayles, and representing the Association of Institutional Investors.

MR. OLESKEY: I'm Lee Olesky, CEO of TradeWeb.

MR. JOACHIM: I'm Steve Joachim, the executive vice president for Transparency Services and FINRA. I'm responsible for TRACE.

MR. JOACHIM: Jeff Joachim, CEO of MarkitSERV.

MR. BLAND: Trabue Bland, Intercontinental Exchange.

MR. SHILTS: And we'll start by asking some questions, and we'd like to give everyone an opportunity to respond, but if it goes a little long that we finish by the 3:30 finishing time, I may ask you to cut it short so that we can stay on schedule.

With that, we'll start out with our first question.

MS. SEIDEL: Thank you to everyone. I guess the first question is sort of a broad question in terms of, in your opinion, what does the optimal system for public reporting look like for these types of products? And then in what ways can real-time reporting be most beneficial to the market participants and the market?

MR. SHILTS: Anyone can start.

MR. OLESKEY: Oh, I'll start off. Lee Olesky from TradeWeb. I would start off by saying I think that electronic trading venues are a good starting point for focusing on how to capture and then ultimately deliver to the marketplace price transparency and pricing into the market. And that, certainly, we've had an awful lot of experience doing that over the last 12 years of so, starting with the U.S. Treasury Market and other markets, and that capturing trades electronically is a way to get closest to real-time electronic trading.

In terms of the dissemination of those prices, I think the challenge will be in the derivative space, in particular, the wide variety of different instruments that we have and the best way of making sense out of them and capturing them in a collective manner. And I don't have a solution for you there, unfortunately.

MR. JOACHIM: I'm Steve Joachim, and let me talk about because people have mentioned TRACE a couple of times, and let me talk about what we think of TRACE and the environment that's required to make a transparency facility work effectively in the marketplace overall, and there's a number of components that take place. And I'm talking about post-trade transparency, and I think you can separate the conversation of transparency into pre-trade and post- trade transparency because TRACE is a post-trade transparency facility. And there's a number of components that we think are critical to making it work.

This morning, in the first panel, somebody talked about the requirement to ensure that data and swap data repositories were data that people used to ensure that it was accurate. Our experience has been that, with transparency facilities in particular, that there are a number of components that have to be in place to make sure that transparency works effectively.

First is authority to compel people to report the transactions. And that can come from rules or some kind of rule-making, but, certainly, our experience has been people have not voluntarily reported transactions without the force of rules behind them.

Second is you need an efficient methodology for collecting and disseminating the transaction, but when you have that information, you need to be sure that you comprehensive and accurate information, meaning you have to be sure that all the data is reported because partial data can be a problem as much as anything. And we can tell you that through our experience with TRACE and corporate bonds is that we discovered even with the force of rules in place a number of people that missed the rule or didn't report the transaction initially, and it required an examination routine, an ability to go back and enforce and to ensure that people were actually remembering to report their transactions and get them to us for dissemination on a timely basis.

A third form of accuracy issues that we need to worry about is that are all the data reported and is the data that's reported accurate? And, for that, you need some kind of real-time data-cleaning exercise in place that ensures that the information is complete and accurate and verifiable so that when market participants are depending any transaction information in the marketplace that they have a sense that the information is reliable and fair. That doesn't mean that there aren't corrections made to data as time goes on, but that you need all of those components in place to ensure that you have an effective regime in place.

In terms of the timeliness of what is real-time and how does it work, and I think a lot of that depends on the marketplace. I think where there are underlying instruments, in securitized swaps, for example, I think that there is a strong interest to keep the timing of that as close to the timing of transparency on the underlying instruments because I think there is an interplay between the two. I think where there aren't underlying instruments, I think that there is a question as to exactly what is real-time and how real-time is has to be to make it effective for market participants, and I think that's something that we should look at instead.

MR. AXILROD: I guess I'd also take sort of the reverse view of this, which is there are certain things that we absolutely should not do. Today, more than just prices get reported. Today, there's public reporting of open interest, there's public reporting of turnover. Some portfolio managers have told me that open interest is more important to them than price information, and, in any event, it's all important that the public -- I will guarantee you that the reporting will turn out to be inaccurate if it's fragment.

I know you've heard this before, but particularly open-interest reporting, we did a quick look at the most liquid credit default swap index traded, it would look like today we reported or awhile ago reported the open interest at somewhere around $50 billion at some point. If clear trade open interest, and unclear trade open interest were reported separately, the open interest would have looked like it was $100 billion, which was inaccurate because there are legs in and legs out, and you might say well, that will all go away when all of the indices are cleared. That actually isn't true because there are multiple clearing locations, and a lot of times, it's one party or another gets to decide where something is cleared. Again, if all the trades were cleared, but what are unclear today were cleared at some place different, then where the clear trades are cleared today, it would still look like you're pretty much misstating the open interest by a factor of two, and especially when you get to things that are more important systemically, like single names that somebody about to go under, what's the open interest in mortgages, things like that, radically overstating the open interest tends to instigate panic, so forth, and so on. So, I guess what I would urge whatever public reporting mechanism is set up, you need to make sure that everything that gets publicly-reported is going to be publicly-reported accurately, and there are just a lot of ways in which non- aggregated reporting will make it inaccurate.

MR. GIDMAN: This is John Gidman from Loomes Sayles. I mean, I couldn't agree more with Peter's point. When we balance the tensions between real-time access to data and the data being correct and authoritative, investigators, and we think the public overall, are much better served by having gold records that we can rely on, particularly at the aggregate level of the market and the markets.

MR. BERNARDO: Shawn Bernardo with the Wholesale Market Brokers' Association.

All of the brokers have the capability to report trades to the regulators in a timely fashion. To go back to what Steve said as far as

TRACE is concerned, we have a track record of reporting those trades efficiently, and we have the systems in place to do that, along with the various means. I mean, we can do that voice, we can do it electronically, we can do it as hybrid as far as the execution, but we send those trades electronically to them in a timely fashion.

MR. TOFFEY: This is Jim Toffey. I just wanted to add an additional point. I think TRACE is a great foundation model as you guys think about the reporting mechanism going forward. They've dealt with a lot of issues very well in bouncing out liquidity and transparency and timeliness. There's one other component though that should not be lost, and Steve went out of his way to say that it's a post-trade, transparency mechanism. But there's an important feedback loop back into pre-trade transparency, and the timeliness of post-trade and the feedback into pre-trade makes the market more transparent. And, so, I just wanted to point that out.

MR. GOOCH: I think one thing with these

conversations, we tend to very quickly move to how it should be done, which is very important, but I think sometimes we lose sight of why we're trying to do it in the first place. And different people have different views on that, so, I'm not sure it's definite, but I think when you talk to most fund managers, what they're hoping to get out of this is cheaper execution. But when you drill into that, I think what cheap execution actually means is not the most obvious thing. You can go to the equity markets, which a lot of stuff done on exchange, very transparent, most fund managers will look at the cost of execution, and not just being the commission or the bid offer on the exchange or the commission from the dealer. They'll look at the market impact of the trade and say how much did it cost me to put that trade into the marketplace? How much did it move during execution, everything else? And I think here with any regime that we design here, the objective should be to get that total cost as low as possible. It does mean there's an interplay between the size of the order, the liquidity on the low market, how much price has moved if you're trying to move the position. So, I think it's a little more complex than say all dates are out, real-time, aggregated, and all these other things you need to talk about. We need to make sure we create something that actually gives benefit to the industry and tends to reduce in cost rather than to increase in cost, but reducing equity in certain areas. You'll get (inaudible) bid offer, but then bigger market moves and (inaudible) is a little more complex.

MR. HARRINGTON: I'd actually agree with Jeff on that point, so, when we're speaking to our customers on both the buy side and sell side, obviously, the reporting issue is certainly at the forefront of their minds, and it really comes down to market efficiency. So, while the idea of real-time reporting obviously seems to have great benefits, I think that when you look at overall market efficiency and especially when you'll get the client to dealer market, and then, obviously, the inter-dealer market, there can actually be sort of a wave of effects that can occur as you move reporting closer to the time of execution.

Secondly is when you look at the larger effect of the markets, and especially in the derivative space where there's different kinds of reporting that can take place, while there is block execution that occurs, and there's obviously the post-trade events regarding allocation and the actual legal counterparties to the trade, which are not always identified at execution, so, there will be some time lags between the two. So, I think that those issues really need to be sorted out before we sort of move forward.

MR. SHILTS: And that was George Harrington.

MR. HARRINGTON: Sorry.

MR. SHILTS: If you could just remember to say your name before you speak.

MR. JOACHIM: Let me just add a couple of things because I think that you raise some interesting questions, and I think that there are a lot of things that transparency does, and some of it, particularly trade transparency, can do more than just provide benchmark pricing at the moment in time. It has a positive impact in terms of looking at price evaluations for consistency of price evaluations in a marketplace that sometimes pre-trade transparency provides some indication, but it doesn't always tell you how to value a instrument. Instead, it's another data point that can be essential for creating consistent marks in terms of people's portfolios and almost any instrument across marketplaces.

I think your point in terms of -- and, by the way, this is Steve Joachim. I just reminded myself. I'll remember.

I think you're absolutely right, Jeff. I think that transparency can mean different things for different instruments. We should look very carefully at fungibility of the pricing data. If an instrument is a one-off instrument that doesn't really trade very often or doesn't have much activity in it, it doesn't trade, it's so complex that it's not similar to any other instrument in the marketplace, putting out a pricing instrument may not be a value in the marketplace at that time. So, I think we need to look at the underlying factors that effect instruments and determine when is a "real-time" transparency regime going to be valuable to the marketplace overall, and it doesn't have to be uniform in terms of that.

MR. SHILTS: Anyone else want to comment on that?

MR. LEAHY: I actually have a follow-up question. It sounds to me like what I'm hearing is that you all like the idea of, perhaps, some kind of consolidation of this data.

What do you think would be appropriate for steps to get there?

MR. GOOCH: I think to think about, and we had a bitter experience in Europe with the MIFID Regime where this went horribly wrong. You can take cash equity, which is a very simple product compared to what we're talking about this afternoon. Under the MIFID Regime, post-trade transparency, everyone had to publish, everyone did their own thing. Market group did the (inaudible) service with 25 percent of the market versus exchanges published, and what ended up happening was, yes, all the data was available, but, in practice, no one could use it because some venues published data with condition code so you could tell if they're price-forming events or not. Others didn't put the trade time on, they just did the reporting time. That proved almost impossible to bring out data together. So, I think the first thing, which is the step that was missed in Europe was say exactly what is the dataset that needs to be reported, then back into who's doing the actual reporting? I think it went the other way around in Europe, but I think that's something they're working very hard now to (inaudible) in the MIFID review at the moment.

MR. OLESKY: I'll just go back to the point that a few people raised. I think there is a real difference when we think about what are the purposes here, and the purpose in post-trade reporting, the regulatory purpose, the systemic risk purpose associated with capturing this data in a way that people can analyze it, to a certain extent, it may not be real-time, it may be necessary to be absolute real-time versus a pre-trade process, which is more about price formation, getting the best price for the customer, and liquidity, and I think each of those two different ideas need to be somewhat addressed separately. They're related, but they need to be addressed separately because the amount of information where you structure things, I think it'd be very different for a post-trade environment where you're looking at it for one reason versus a pre-trade environment, where you're looking at it for a price formation, liquidity, and actual customers interacting in the marketplace. And it's different bits of information and different organizational approach to those two things that we should keep in mind when structuring this because I think they are very different ideas. And that's been reflected in a number of the comments. I don't think that's anything new. I'm sure that's been talked about today previously.

MR. AXILROD: I guess I'd like to make a further distinction about what's publicly-reported. I mean, it seems things are publicly-reported, so, investors particularly, ultimate investors and users have an idea about what's going on in the market and can make informed decisions. But I think it's important to distinguish this sort of tape or consolidated tape type thing, exchange type thing from another type of reporting. I mean, that may give you execution prices at certain times, but it won't tell you what's really going on in the market, right? Are positions just swapping around or is open interest really increasing? All of that stuff. So, you've got another piece of public reporting, which is giving you another picture of the market, which is: Is the turnover creating new, open interest? That sort of thing, and I think that has to be consolidated in order to be meaningful because, otherwise, you'll get something inaccurate. It's not clear that the sort of tape reporting has the same imperative to be consolidated, but it would be better if there was some sort of consolidated tape.

With respect to the open interest, turnover, and that sort of stuff, I think the repositories are a natural place to report that because they're holding the information, but there probably has to be some sort of aggregator if there's more than one repository per asset class, and people have to work that through.

In terms of the sort of consolidated tape, I would echo what Jeremy Barnum said in the last panel, that people already have to do something very close to the point of trade to get it so it's a legal trade, and it seems to me that those are the natural venues to have that sort of -- whatever real-time reporting one does, it seems like that's the natural venue to do it is a sort of middleware or confirm facility type places so people don't have to go twice.

MR. BERNARDO: Shawn Bernardo. I guess from the brokers' perspective, we actually have the systems now in place that if you wanted to see pre-trade pricing or price formation, we could provide you with the view-only screen so you could see those prices real-time being put on the screen, whether they're live bids and offers or whether it's indications of interest. So, we could give you that, to the regulators.

And, as far as the post-trade, we could do that, as well. As long as the trades are coming through us, we could disseminate that post-trade feed directly to you guys, and you could have a blotter similar to what a trader has in front of them, and you can see okay, these are the details of the trade so you can monitor what is going on.

MR. SHILTS: And you're talking about transparency to the regulator, not public reporting?

MR. BERNARDO: Correct.

MR. OLESKY: This is Lee Olesky. If I could give an example, U.S. Treasury Market, which is a market we started 12 years ago, so, how does that work in terms of pre-trade transparency and actual transparency of execution?

We actually have a screen that shows a bid and offer that is fairly indicative of the marketplace. Eighty-five percent of the transactions occur electronically within that bid and offer, and then once the trade occurs, the price pops up on the screen and is available for people to see what the price is. It's also available in a feed that customers can pay us for and acquire.

So, using the Treasury Market as an example in terms of pre-trade transparency or transparency at the time of the trade, you have both an indication of where the market is, which is very good information, you have absolute information on what the last trade was, and it's very focused on the asset classes and the users that care about the market that were in, for example. So, if you want to apply that to other markets, this is why my opening comment was that electronic marketplaces, I think, are the best place to focus on for pre-trade transparency. You have in the Treasury Market an example of absolute certainty on what the price was and the last five-year note.

What we don't give information on is the absolute size of the transaction, and the reason we don't do that is because that starts to interfere with the formation of liquidity and the risk associated with the trade. So, by not showing the size, what you're doing is you're giving someone a sense of where the market traded on a price level, but you're protecting the marketplace from the information that it might be a very large transaction.

Our typical interest rate swap transactions that we do in the U.S. in dollars average $40 million a trade. So, you need to be careful, depending on the market you're in, the pre-trade transparency can absolutely impact the ability to access liquidity because these are markets that are principle markets. So, there's always someone who owns each side of that transaction and the risk associated with that transaction.

MR. MASTERS: This is Mike Masters. I would just clarify that you're talking about pre-trade rather than post-trade. Clearly, post-trade doesn't have an issue. If I see a block trade, I want to see the block trade. After the fact, pre-trade (inaudible) bids and offers, people (inaudible) and so forth, but after the fact, I want to see that post-trade liquidity in a block print in some form or fashion than quantified. Just I think that's the point you were making.

MR. OLESKY: I'm not sure that's exactly the point I was making. But, I mean --

MR. MASTERS: (inaudible) my point.

MR. OLESKY: I'm not sure I understand your point in terms of --

MR. MASTERS: (inaudible) I'm just

saying there's a big difference between pre-trade transparency and post- trade transparency --

MR. OLESKY: Well, yes --

MR. MASTERS: From the standpoint of --

MR. OLESKY: Well, what I would say -- right, and what I was trying to say before with the difference in what you need to see pre-trade and at the time of the trade to prepare yourself to trade, there's a different set of factors and information, and you might want to have collectively in a place where regulators post-trade can access systemic risk and what the exposures are across many different instruments. The challenge here, I think a few people have touched on this already, is there's a wide diversity of instruments that we're talking about, and to pool them together in some sort of consolidated way and say well, here's an equity derivatives trade, here's an FX trade, here's a commodity, here's an interest rate swap, I don't know how you'd make sense out of that in a sort of pre-trade environment. Post-trade, you have to pool it together in a universal way so it can be interpreted and used to access systemic risk and where you have risks among counterparties and players in the marketplace.

MR. TOFFEY: But to Michael's point, I think it's important that if you look at corporate bond market, a very disparate market, and 97 percent of the market is dark throughout the day. There was no real-time good price on 97 percent of the issues. When an investor wants to trade, the first thing they'd go and look at is TRACE before they look at anything else. And, so, it's a valuable tool and it is the lifeblood of a good, efficient marketplace and it's something that, as you explore, it's a very good model for the swaps and derivatives market going forward.

MR. JOACHIM: This is Steve Joachim. I had to remember to say my name first. It's not an advertisement.

I actually think a lot of people said a lot of great things here. I think the first thing that has to get done is the CFTC and the SEC have to decide what are the goals they're trying to achieve through real-time transparency? I think the legislation is a little bit vague on exactly what they're trying to achieve through it, and I think we have to define what those goals are. And they may be different for different segments of the marketplace. It doesn't have to be uniform for the same because the characteristics of the instruments are different. And once you identify what the goals are that you're achieve, then I think what Jeff said earlier is absolutely correct, is that we have to create a set of rules that define the path that people have to follow because it won't happen naturally. It needs to be defined in a way that market participants know exactly what they've got to do and they can do it consistently and that, again, I think that there needs to be an enforcement regime of some kind that will ensure that people are following the rules of the game because I think, in general, most people do, but there's always the exceptions that can create distortions.

I think what Pete said is right, it's that there's a whole other segment of data that's incredibly important to the marketplace that needs to look entirely differently in terms of its transparency value. Open interest, it may not compute on a real-time basis. It may be good at the end of the day. If you're just looking for evaluation and for evaluation data, end of day prices might be fine for that. I think we have to look at exactly each different kind of data and define what those goals are and then define what kind of transparency regime makes sense for those across the marketplace overall. And I think it's the interplay of all those data elements that defines a transparent marketplace. It's pre-trade, post-trade, it's the indicative data, it's other kinds of factors that will make the marketplace be more efficient and more effective overall.

MR. HARRINGTON: It's George Harrington, and following-up on Steve's comments, I think that what this really comes down to is what the venue selection will end up being as far as where the reporting will take place. So, as we step back and look at sort of the SDF that we're having on a broader basis here today, it seems obvious that there more likely than not be multiple players in that space, and, therefore, I think Jeff alluded to in MIFID, Bloomberg's been waiting a long time for MIFID data to come out so we could provide it to our customers, and that's still not there. If we get into a similar situation where there's multiple SDFs and while there may be differences between them, if the models are similar, you could have a possible aggregator either sitting on top or sitting behind them. But I think that the key is that, from a regulatory standpoint, if we can point towards a single source and the providers in the space, like Bloomberg and my colleagues around the table all have open and direct access to that source and they're able to basically pass that data back to our end-users. I think that's really sort of a day one requirement so we can all access and distribute the data on a fair basis.

MR. SHILTS: Any other comments on this question?

MR. GOOCH: The only comment I would make, and I'd echo what George says, I think it's an important thing to get right in the sense everyone talks about -- I'm as bad as everybody else talking about the problems from transparency. There's also a lot of evidence there that you can take some benchmark products, make them transparent, and that will grow the size of the overall market. I mean, a lot of people believe the interest market at the size it is, because it's a very effective futures market. And, certainly, as I've done over many years sitting in banks, you listen to the tapes of conversations of customers, half the time, they're talking about the futures prices and when it takes over on the exchange, and, therefore, is the swap properly valued, et cetera? So, there's a strong feedback between transparent markets and overall OTC markets, and if you get that right, it could be very beneficial to everybody. And to George's point, that (inaudible) about getting straightforward data out to a wide group of people in a very accessible form on certain parts of the market that can eliminate some of the other things that are happening.

MR. SHILTS: All right, thank you. I think we'll then turn to the next question.

MR. LEAHY: So, what data elements should be reported? And I know this will depend on the asset class.

MS. SEIDEL: And if I can just frame sort of what we're asking for here, what we're talking about is the real-time reporting, and the statute has in it references, data relating to the transaction, including price and volume information with respect to a transaction that has been executed.

MR. MASTERS: I'd just to make sort of a broad statement in terms of what I think your intent is or the intent of the Dot Frank. It seems to me with all these various products, we've got people speaking French, Japanese, Chinese, and

Italian, and we're trying to convert them to some standard language, and one of the first things in sort of the standardization of this market, if you will, is to try to standardize the terminology in the sense of how do we convert everything that's over-the-counter into sort of a listed equivalent, if you will, as much as we can do it? So, when we're talking about an interest rate swap, there's a certain hedge that a trader does with an interest rate swap that has a certain delta equivalent and so forth. And, so, in my view, maybe one of the more practical ways of doing this would be, and we're going to need to do this for position limits and so forth with regard to other parts of the legislation, is to convert everything into some equivalent that everyone can understand from a hedge perspective.

And, again, it's not like this is cold fusion. I mean, people are doing this anyway because anybody that's doing these trades, any swap dealer that's doing these trades is converting it into an equivalent so they do a hedge. They have two choices, they can either find another customer, at which point they have to equivocate and figure out what their exposure is, or they're going to do it on a listed market. So, I think as much as we can, if we can put this stuff, bring it down to a least common denominator so we can add fractions, I think we're going to be in a lot better situation with regard to whatever product we're doing.

So, if someone is doing a certain kind of a swap, if it's converted into some delta equivalent, then the regulators know exposures from credit exposures, market participants can compare apples to apples. You don't get in the problem you had in Europe where you had a situation where some people were reporting one thing and other people were reporting other things. The more standardization we can bring this, because one of the reasons we're doing clearing to begin with is to bring standardization to a non-standard market, an over-the-counter market, to allow customization, but to bring standardization with that. And the only way we can do that is we're all speaking sort of the same language from a market participant standpoint. So, that's just sort of my broad thought, and I'll leave it.

MR. OLESKY: Yes, Michael. This is Lee Olesky. I absolutely agree with what you're saying. I think taking some sort of risk-based approach here could work on a number of different levels. So, if you apply a risk-based approach to the instrument, you can start to say okay, well, if it's a certain size risk, it needs more of a delay in terms of time in which it hits the marketplace because if it's between two principles, there's a lot of risk associated with that trade, and if it's made public immediately, it's going to affect the willingness of either of the counterparties to want to enter into that transaction. And, so, that gets sort of to the block issues and trades on the phone versus electronic trade. So, I think the concept though of thinking about things in terms of the risk associated with the instrument and putting things on a common language at delta or something that everyone understands what the risk is associated with it, it's an interest rate swap or whatever it is, I think is a good starting point and would apply to a number of different places in terms of trade reporting and price transparency block rules, et cetera. So, we agree with that.

I guess the challenge is we would also advocate trying to keep it as simple as possible, and, so, there's a lot of elements that we certainly applaud with respect to TRACE, where it's a very simple, clear-cut okay, if it's over $5 million then it applies. I mean, there's a lot of value and simplicity to here. So, we like that idea, too. So, maybe if it's over something, then it's in one category. If it's below something, it's another category.

MR. AXILROD: It's Pete Axilrod. I guess I'd like to make a plea for people to be careful with commodities. It's a little bit of a different market than what most people have been talking about. There are delivery points all over the country, there are load- serving entities, many of them all over the country, there are producers all over the country, and if you force people to specify a particular delivery point all the time, people are pretty much going to know who's making those trades. So, whatever you do in terms of what commodities data is reported publicly, you have to leave room for some flexibility in terms of anonomization. So, if the delivery points are too specific, you may never get much anonomizing of trades, but if you allow the geographical area to be expanded or to have some anonymity criteria and perhaps pick the set of delivery points that meets the anonymity criteria, something like that needs to be done. I think if you try to standardize too much in the commodities area exactly what has to be reported, you'll end up either with everybody knowing everything, who's doing what are not terribly much useful reporting. I don't have an answer to that question, but you have to be careful with the commodities reporting.

MR. STEINER: Is that an issue for other asset classes, too, or just primarily --

MR. AXILROD: I do think it gets to be not in quite the same way because there isn't sort of geography binds the participants and the delivery points, but when you get into anything with a single name underlying, something that's not a commodity in a broad sense, but if you look at credit default swaps, the data we publish, they're really no more than 20 or so non-sovereign, single names that trade more than a handful of times a week. So, if somebody's calling around for prices or doing whatever needs to be done, and, all of a sudden, a trade shows up, even at the end of the day, everyone will know who did it. And especially with long-term buy and hold investors, if exit strategies are important, and to the extent that the market knows who has this stuff, exit strategies become very, very difficult, and that hurts pension funds and things like that. So, I'd be careful there, too.

MR. TOFFEY: This is Jim Toffey. You asked about what type of data should be reported in these trades and how it should all work. There's the obvious stuff, trade size amount, and you create rules for how and when that's disseminated. One lynchpin that I think you'll find as you go through this that is fundamental is the reference data, and I think as a customer of a lot of reference data have observed, there is no golden copy, there is no clear standard, and if you're going to create a consolidated tape underneath for the industry, I think the regulators have to take a stronger look at how to clean that up and come up with real standards around the underlying entity and the reference entity so that you can have accurate, consolidated trade reporting.

MR. MASTERS: Yes, just to be clear, just to make the point again, I mean, what I'm really talking about, risk-based measures here so that we can -- again, I mean, I understand the point of delivery and so forth. I mean, I get that, but, I mean, what I'm really talking about at a risk level. In other words, if you traded -- in a commodity example, I mean, equivocated back to the closet contract, use a listed equivalent where now we can understand it. Because people are already doing that. I mean, dealers are already doing that themselves to get their risk right. And, so, what we're really trying to do is sort of standardize their risk process so that other folks can see that, which gives us more transparency as market participants, and, clearly, regulators need it to certain things that they're required to do under Dot Frank.

MR. JOACHIM: This is Steve Joachim. Michael, I think you're right that if the best thing we could do as we're looking at the transparency regime is to find ways to represent evaluations or pricing in a way that the industry can relate to, but I think it's sometimes much less uniform than market participants often find out, and I'll give you an example of that.

When we launched TRACE, we looked at

trying to provide prices that spreads over treasuries which way most investment grade instruments trade. Until we started talking to the participants and said well, which Treasury prices are you looking at and what's the benchmark Treasury prices and which spreads are you talking about? And you found out pretty quickly that those were not uniform. And I think, in retrospect, as we look at TRACE, I would say I would rather put out prices that spreads over treasuries if there was uniformity and agreement across the industry as to how to do that, and the question is: Can you get to the stage where you can create a benchmark that is something that everybody can agree to or do you have to put out the basic pieces for people to do so they can compute it in their own fashion? And, so, I think that's a great goal. I think whether you can achieve that or not in any timely fashion or not I think depends on how consistent it really is across markets overall.

A second thing I'd like to talk about a

little bit is anonymity, and I think we have to recognize that when we're talking about transparent in marketplaces that if we want to pursue the goal of transparency, that trading in transparent markets is different than trading in opaque markets, that you lose some anonymity no matter what happens. There will not be total confidentiality. The examples that Pete talked about are no different than they are in the corporate bond marketplace. We listened to all those concerns, and we monitored them very carefully for the last eight or nine years and have not seen any damage to liquidity as a result of the transparency that's been brought to the marketplace, and, in fact, we see lots of evidence that liquidity has been enhanced as rules of the transparency in marketplace in liquid as well as liquid portions of the marketplace. So, although it is very hard to prove. I don't want to say it's a QED, it's one of those things that's really out there.

But I do think that you just have to

recognize that it will not be the same market if you have transparency after it than it was before. And I think regulators have to look at, again, those goals that they're trying to establish, and if you achieve the goals you're trying to establish and recognize that there are some changes that will happen, and I think that's one thing that we recognize as we stage implementation of TRACE over a number of years was to get -- the biggest single thing we achieved by doing that was giving people time to adjust, to learn how to trade differently in a different marketplace so they could protect their positions and protect their interest as much as they possibly could.

MR. GIDMAN: This is John Gidman. I think one of the major concerns that investors had in the rollout with TRACE was that we would quickly move from price transparency to trade transparency and really affect our overriding goal of being able to get liquidity. And I think the phase in that you referred to was really important, but I think the reasonable delay also is finding the right balance between the goals of real-time dissemination of information and not being so quick as to affect liquidity, which is really our overriding goal.

MR. HARRINGTON: So, George Harrington. I think the other thing that we need to consider especially with these products is stepping back and looking at what the difference is between TRACE and treasuries where there's reporting, as well. The fact that these are synthetic products, these are an inventory-based product. There's not a finite amount of a particular bond that's out there, and, therefore, there's physical securities moving back and forth. Because it's a synthetic security, that's really created at the time of execution. That does have a different market dynamic to it, and, therefore, I think Pete's example regarding commodities is something to consider, as well, because there are only certain users or end-users that will actually execute in their weights in the credit markets on certain securities in size and certain securities. And, therefore, the market impact can be much, much greater because of the fact that it's a synthetic underlying, and that should be examined very, very carefully as far as a price efficiency standpoint, and, once again, in the client to dealer and the inter- dealer markets.

MR. BLAND: I think I'm going to pick on this point about phase implementation because all the answers to this question depend on how (inaudible) and sort it all out. I mean, I think one of the problems the ACC market has, and I think in one of the earlier panels, we talked about the interest rate market, and you can take vanilla 10-year interest rate swaps. Almost 50 percent of those products have something non-standard about them (inaudible) nothing very complicated, but they're just not the straight vanilla trade. That creates enormous problems, I think, on a public tape if like Steve mentioned, people want to back our pricing, then you need to know what that forward start date was and what the additional details were in order to understand the prices being printed.

If you take Michael's approach, which I think is a very sensible one, I should say, I actually don't want to know you did a 10-year trade with a forward start date. They want to understand the risk you traded and how that risk was priced. Then that has enormous advantages in terms of normalizing the data across a whole variety of different trading activities, and I think helping more transactions look more transparent, and, therefore, will look more liquid, and, therefore, make transparency a little bit safer.

The trouble is, in terms of the timeframes, to do that for everything from interest rate swaps to swaptions to credit trades, credit indices, to equity variance swaps, evidence else that we need to cover, that's an enormous undertaking to get everyone to agree how to do that. Steve struggled on U.S. corporate bonds, which are pretty straightforward by comparison. I'm sure he has some good people working on it.

That's a multi-year effort. So, I think some of it says that the right solution, and is this solution going to be practical in the timeframe, I think a little bit depends on how much we're trying to achieve, how quickly, and on what range of products?

MR. AXILROD: This is Pete Axilrod. If I could jus add to what Jeff said and tie it back to the original point, what I would take back from that to answer the question how much data should be put out there, I take it from an implication from what Jeff was saying, is most of the trade details that you would need to confirm a trade that have to do with pricing, and that's a lot of them. It's more than people think, as Jeff pointed out. Probably ought to be out there, or, otherwise, people won't know what to make of the price and make take the wrong lesson from it. So, again, this is something where I would err on the side of providing more details. It doesn't hurt anybody to have details. If it takes 30 fields to confirm a trade, it may not hurt everybody to see all 30 fields or all 60 fields. They can pick out the ones they want to pay attention to, but if you err on the other side, people will start getting upset because they'll think something means something that it doesn't. So, I guess to start, I would err on the side of more fields rather than less and work it back from there.

MR. STEINER: Just a follow-up on that point, specifically for bilateral transaction where the price could have other things, collateral, credit, worthiness of a counterparty, specifically what types of fields would capture that as to still ensure the anonymity of the counterparties, but, yet, provide some valuable data?

MR. AXILROD: Well, I mean, you put your finger on something, which is in the bilateral world or even in a cleared world where the CCP doesn't have to take the trade, which probably is the way a lot of this is starting out, if there's a moment in time when something isn't clear, you're taking a counterparty risk for no matter how long, part of the price is going to have a credit component, and that's just going to be very, very hard to understand that part of the price.

MR. BLAND: Yes, I mean you're certainly going to get a variation because of counterparties. Unavoidable, it's a natural part of the market, and I was talking to (inaudible) one of the dealers last week, and he was saying he's going to price differently depending on which CCP the counterparty uses, not on a systemic basis because he prefers one over the other, but said when he takes a specific trade, he puts it into one CCP or reduces initial (inaudible) offsetting risk. He puts it into the CCP, it's going to increase it. He's going to price differently based on that decision, and the very next trade, he may take the opposite decision about which is the more cost- effective CCP.

So, you are going to get variation because of counterparty, and I think that's unavoidable. I think to try and model who they were trading with, why they took that decision, it's just not practical. I think the sums of marginal (inaudible) we're all going to have to live with on these prices.

MR. MASTERS: And I would just say that, again, going back to the whole -- this is where I think the pre and post-rate regime is so important. I mean, post-trade, we're seeing a lot of stuff that we're not seeing pre- trade. So, there's things that I have access to as a market participant post-trade that I don't have access to pre-trade, and, again, transparency -- Steve made this point. I mean, if you want a transparent market, you give up some opacity. That's just the nature of it, and I think that we went through a situation where we even decided collectively that we'd like more transparency in our markets. And, so, yes, there is an issue, but, again, post-trade, there's a lot of stuff that can be done reporting-wise and so forth. I have a pretty good idea if someone's trading in jet fuel swap that it's an airline.

(Laughter) I mean, maybe it's not, but, at the end of the day, I'd like to see that converted into its notional equivalence just so I can say okay, well, that means X for heating oil and so forth, and I'd break it on down. And I know the dealer is doing that anyway. And, so, that's the whole idea.

MR. JOACHIM: This is Steve Joachim again. I am trying to remember.

And one thing that Pete said though I think I have to respectfully disagree you with on, I actually think that you have to be very careful what you put out there. And more is not always better because once you put it out on the marketplace, you can't stop disseminating it. So, once it's made transparent, it is transparent forever. I guess you could always say you could always change your mind, but it's pretty hard once you've put out pieces of information that you're going to try to collect it or stop disseminating it at a later point in time. So, I think we really have to think very carefully at what we're doing, and, again, I think staging is a good process. I think you want to err on the side of transparency if you can, but I think you have to be very, very cautious how you approach it and be sure you think through what people are going to do with each data element, why they need it, and it really will provide value because too much information can be a negative, also.

MR. AXILROD: Yes, I take your point on that. Thanks.

MR. GIDMAN: Yes, this is John Gidman. I think if you err, you do want to err on the side of greater transparency. There's certainly an issue that I think the staging component, as you've described it, or aggregation, as it's previously been described, it's critical that you're able to get a holistic view of the market. The danger that I could see happening is in fragmentation of the market and the rush to provide real-time information, you actually have misleading, substantially-overstated or understated information, which, in fact, doesn't serve the public interest.

MR. BLAND: Yes, I'll echo Steve and John here and also add that the more fields you add to public reporting, the more complex it's going to be for the aggregator itself, whether it's a clearinghouse exchange or the CFTC. It's something to think about. It adds an additional level of complexity and actual technical underpinnings of this reporting.

MR. GOOCH: There's probably one other thing we've not talked about, sorry Jeff Gooch, is what types of transactions should get reported at all? And I think people talk a lot about large transactions, and there's a panel on that later on, so, we won't talk about that, but, also, a lot of transactions that exist in the marketplace are not price-forming events.

In the credit market, I think almost half of all transactions are not price-forming events. Either compression runs that reduce the size of their portfolio, innovations to clearinghouses on new trades or back-loaded trades. There's an awful lot of information out there which can just be confusing for the public, and the first thing to do is work at how to actually sift that stuff out.

I think the other thing is where in our price disclosure you pick up the transactions? For example, in client business for fund managers, most will break them down into sub-allocations. Is it useful to know that there's 50 allocations and $1.5 million each or do you need to know it's a $75 million trade done at a particular price?

I think in most cases, the public information should be the $75 million number, not the 50 times $1.5 million number. And that causes a problem in a number of OTC markets, where they look more liquid now because people see the allocations rather than the blocks. So, I think this needs a little bit of thought around where in the process flow you pick things up and how you bring those things together. You don't want a situation where the trading platform reports and the CCP reports or the SDR reports and the confident-provider reports. We need to make sure that the work we've done, you're bulletproof against double counting or missing a trade, and, also, you missed the right trades in terms of ones that should be going out to the public.

MR. JOACHIM: I couldn't agree with you more, Jeff, in terms of a lot of the things you just said.

A couple of things I think that you hit on that I think that I want to emphasize. One is accountability, for getting the data accurately to you is a critical issue. I think you have to find who are the critical parties, and, my person belief, it's the counterparties have to be owners of that. The mechanics of how that information gets from the counterparty to you could be in many different ways, but, ultimately, the counterparties have to own the quality of the information that gets to you. They may have an agency deliver it to you to make it as an efficient as possible. We've talked before, and I think that works great, but I think you have to be sure that you have the proper accountability so that you can identify the accuracy of the information overall.

I think that you have to very careful about the information once you get it, and I think Jeff is right, is that you do need to be able to filter what you put out in the marketplace. But I think whoever the aggregator is needs to have everything, and that aggregator has to make those decisions because if you have 1,000 different points making 1,000 different judgments, no matter how good your rules are, those judgments are going to be inconsistent, and you're not going to be quite sure what you get. So, you'd be a whole lot better off I think as you approach this as having whoever that aggregator is, whatever that entity is is collecting information, filter out the information that you don't want to have, and, from a regulatory perspective, I think the regulator needs to see everything in its raw form to be able to manage and oversee the marketplace effectively. And you may put out some re- information or benchmark information or risk-based information, but the aggregator itself can create that information for you.

MR. SHILTS: Okay, I think we'll move on to the next --

MR. LEAHY: Not yet. (Laughter)

MR. SHILTS: Go ahead.

MR. LEAHY: Well, who should an "aggregator" be?

MR. BLAND: ICE.

MR. LEAHY: I mean, what we're hearing is we should have an aggregator. Yes, ICE. We should have an aggregator. I'm hearing that we should avoid fragmentation, and I think on one day, I don't think we can have it a single aggregator yet. So, how do we mitigate the effects of fragmentation when these rules go into effect?

MR. MASTERS: I would just go back to the same point. I mean, if you're going to establish an aggregator, and this is Mike Masters. Sorry. If there's multiple aggregators or there's one aggregator, whatever, we all speak English, we all speak the same language. It doesn't mean we have to know the whole dictionary, but we have to know certain phraseology so that we can communicate with each other, so we can communicate with the regulators, and so we can communicate with different market participants. So, in my view, there has to be some standardization of the terminology and whatnot, and I think that comes from the regulator.

In other words, the regulator says if you want to say things a certain way, you say them this way, in this phraseology, and then there's no debate. Someone initially, I mean, we're in a democracy, but, in this case, with standardization, someone has to say something, this is how it's going to be at first, and then we can all do what we need to do. And, of course, that's with input from our participants and so forth. I mean, it does have input, but there has to be an initial force it's X, Y, and Z, and this is how we say it.

MR. STEINER: Are you talking standardization across asset classes or within asset classes?

MR. MASTERS: I'm saying, well, there'd be some of both. I mean, I think across asset classes, there needs to be a risk space standardization in terms of convert everything into a delta equivalent. In terms of the nearest listed delta equivalent. So, if we're trading apples, we can -- and, in some cases, you're not going to be able to do that, and you come up with some other regime, but, in many cases, most swaps, you're going to be able to convert them based on the (inaudible).

With regard to specific asset classes, I mean, obviously, reporting for commodity swaps is going to be different from interest rate swaps.

MR. GIDMAN: The comment was raised about who should the aggregator be? I think it's clear that the facility that provides market-wide views needs to be one that doesn't pick winners and losers among market participants. I think market participants large and small, the public interest, and objectives of regulators are well-served by very open access to all the information that's in that repository.

MR. BLAND: So, following-up on that and the panels this morning, I mean, SDRs would be a logical candidate to provide reporting based on the model that you've outlined, and thinking about it both from a business perspective and in a systematic risk perspective, they have all the data. There was a consensus of running it more like a cost plus utility, which is consistent about going into reporting.

In terms of standardization, I absolutely agree there should be standardization, but, I mean, we could do this in an afternoon. It's not that hard. You do fix and FpML. The language exists, and you create the tags, and you're done. It's not that hard.

MR. JOACHIM: Yes, I agree with what Jim just said, is that -- this is Steve Joachim again. Is I think the mechanical problem isn't the problem. The problem is getting the infrastructure in place to do this and do it consistently, and I think what I heard everybody saying, and I kind of agree with, is that I think the regulator has to own -- you need a neutral party in the middle that needs to own this process that has the authority to make the rules and has the enforcement, the muscle to ensure that people follow the rules of reporting. The technology that's required to get the data into one place and out is easy. It's all the other pieces of that that are hard to do.

MR. SHILTS: What do you mean the technology is "easy?" You mean it wouldn't take long to implement, or what do you mean by that?

MR. JOACHIM: Well, the technology itself, there's a lot of technology in the marketplace today that, quite frankly, the volumes you're talking about here are not high. You might think they are, but look at the equity markets. Equity markets are multiples of these volumes on a daily basis. So, the technology for collecting, aggregating, and disseminating the data, assuming you're going to use -- current infrastructures are in place, use market data vendors to put it out there, but. just as an aggregator, there are plenty of technologies that can allow that to work pretty efficiently.

There's work to be done. It doesn't mean it can get done tomorrow. There's work, but the real heavy lifting gets done around the rules, ensuring that the rules of what gets reported and how it gets reported is consistent and equally well understood.

And I'll give you an example of what I mean. We're going through now at FINRA plans to just collect securitized property information, asset-backed and mortgage-back information the first half of next year, February 14 is the date that we're focused on. And a great analogy of looking at securitized property, which probably is very parallel to the structure we're looking at here, was the gun who actually runs TRACE is a guy named Olen Person, who said to me that -- he's Swedish, and he looking at securitized property as compared to corporate bonds is like looking at

German versus looking at French. And I said, what do you mean? He said, well, I'm European, so, I look at things differently than you probably do. But in German, there are 1 million rules and 1 exception, and in French, there is 1 rule and 1 million exceptions, and that's much more like what asset-back and mortgage-backed securities are like, and I think that's very much what this is going to be about is defining the rules of what gets reported, how it gets reported, what do you mean by an execution time, what price is it, what's the delta, what are those elements? That's where the heavy lifting -- and the time to build the technology infrastructure to get that done is much smaller than it is the time to define how you want people to do it and report it, and I think that's what we're talking about.

MR. HARRINGTON: This is George Harrington. So, Richard, I think to your question regarding the technology and not being hard, per se, I mean, I think there's a number of firms represented here around the table who are really networking firms, so, we connect counterparties, we connect clearinghouses, we connect a lot of different providers. So, I think that the connectivity is there.

What seems most logical to us is that if we're looking at these swap data facilities that'll be created and they will gain clearance from the commissions to actually act in that role, is somewhere in the back of that process is where you would actually get the data. I think because of the nature of these markets where (inaudible) execution doesn't occur until the actual counterparties are known, that's when the clearing process would start. Then the trade actually clears, and then you actually have a trade that would go to an SDF or, if it's traditional, OTC would go through some sort of SDF-like process, where you actually have known information that you could take.

Off the back of that, and I think Jim's right, the market standards are there. We all at our firms work in protocols that are relatively standard, but there's obviously differences among them, but the ability is there to take multiple feeds. If there is an ace, a designated aggregator, to take multiple feeds and commingle those and actually come up with what a picture of the feed looks like. So, I think that it's not at trivial effort. It's obviously something that would be done, but I think because of the networks that exist in the market today, I think that the ability is there to deliver.

MR. OLESKY: Lee Olesky. The other thing maybe to keep in mind here is the rest of the rules are going to be coming out, and the categories that are being established with respect to SEF, what's a standardized contract, and between the SEFs and exchanges, it looks like a lot of the activity is going to run through these vehicles electronically. So, if a lot more derivative activity that's going to be running through SEFs, whatever they may be, exchanges, and these vehicles will capture this information and this content because the very nature of what they're doing is they're matching counterparties with enough detail and information to establish a trade. We're doing that today in interest rate swaps and credit default swaps. So, and that's contemporaneous. Boom, that happens, a match happens, there's enough content that's exchanged between the two parties for a binding transaction to occur. That data then gets routed, as George said, as everyone's been saying, we all have networks. Boom, we can send it to a clearing corp, we can send it to a depository, we can send it anywhere instantaneously effectively with enough information to establish what the trade was, which, in theory, should be around enough information to be a part of this whole transparency process.

And in terms of the technical languages, I agree. I think that that's something that can be sorted out very, very quickly. But the content, capturing the content and the actual trade is going to start to occur as we read things in SEFs and exchanges. More and more of the market is going to be -- and that's probably the part to focus on first: What's standardized? What's in there? What's going to be captured there, and focus on that as a starting point for building things.

MR. BLAND: Yes, this definitely isn't a technology issue in a sense. I mean, you just look at the markets (inaudible) we probably have 90 percent of the whole U.S. market on (inaudible) electronically and (inaudible) in the system. So, in that sense, yes, it's all captured, 47 percent missing that would need to get fixed somehow. But the data is there and can be more accessible in a reasonable and timely basis. But the real challenge is which subset of that data is actually wanted, and, again, what kind of delays and what kind of structure? Because dumping entire database out to the public, it's just going to be pointless in terms of information content. So, I think I have to agree, the much bigger challenge is who.

Secondly, my impression, going around

the table, is not surprising. There are lots of people who want to publish this information. I suppose lots of people are going to publish the information and probably shouldn't be stopped from doing that. The question is: How do you deal with the duplication, and does there need to be like an official non (inaudible) feed of data which doesn't stop everyone else publishing what they have got (inaudible) back to their users if that's useful. But I don't think we should prevent them from using their own data.

MR. JOACHIM: I think the one place that we do have to ask a careful question about though is, depending on the timeliness of reporting requirement, we listened to the conversation this morning. I think the SDRs were not really thinking about close to real-time reporting. I mean, there was some discussion around that, but there was some concern around it. So, if we are talking about a real-time reporting regime, there may need to be automation much more at the point of sale or the point of transaction than exists today, and that is a stage process that does take time to put in place. But I think what we're talking about here is this is an essential infrastructure required to move it from the point of execution to the point of actually dissemination, where it gets into the hands of investors is the infrastructure is mostly in place in the U.S., certainly.

MR. BLAND: This is Trabue Bland with ISA. Just (inaudible) this and it's a topic for tomorrow's panel, but it's going to be critically important at least from a clearinghouse perspective to know what a SEF is, and the closer that SEF is, and it looks to an exchange, the easier it is for the clearinghouse to receive data in a consistent format and a consistent time, too.

MR. BERNARDO: It's Shawn Bernardo. Just on the back of what you just said, we do want to have open access to that clearinghouse. We want it non-discriminatory, as it's written in the legislation currently. So, we don't want the clearinghouse, who may also own a trading venue, to be able to discriminate.

MR. GIDMAN: That's absolutely correct. I mean, if the trades have to go through a clearinghouse, all market participants should find access to that market directly.

MR. AXILROD: This is Pete Axilrod. I just wanted to clarify one thing. Not our equity repository, but our credit repository does update positions in real time, assuming we get the trades close to point of trade. So, the trick is, right now, the infrastructure's in place. If we can get the trade data quickly, then all the position data will update in real time, and, in theory, whatever part people wanted to be disseminated publicly could be.

MR. COOK: Just a question. How important is it that everyone has access to the information at the same time, whatever the aggregated information is, how high should that be on our ranking of first order priorities when we're designing this system?

MR. GOOCH: I think that needs to be

very high up.

MR. GIDMAN: I think it should be among the highest priorities. If information delayed is information access differed, by that nature, it picks winners and losers in the market.

MR. COOK: And I want to hear from others on that, too, but, also, what do you think will be the biggest challenges to achieving that goal, would be helpful to hear, as well.

MR. HARRINGTON: This is George from Bloomberg. I think that for end-user community on the buy side and the sell side, as long as the access point is direct, in other words, we have the ability to go directly to the CCP, the SDF, whoever the ultimate designed aggregator or the multiple aggregators that we have the ability to access directly in real-time, I think that that will satisfy that, and I think that, also, it really would be good for the competitive environment and it will inspire innovation. So, obviously, our firm and firms represented around the table will work very hard to deliver a value-added solution to our customers, whether it's single or multiple, as long as we're not put in an encumbered point where we can't get directly into the data and deliver it back to our end-users, I think we're very comfortable that we can compete, and, also, very comfortable that they'll be a lot of good solutions that the market will innovate towards in that environment.

MR. GOOCH: Yes, I think it is very important that whoever puts the data out gets it to all participants at the same time. If they're going to go by market data, vendors like Bloomberg, Markit, or Reuters, or whether they're going to go onto the trading (inaudible) at the SEF or onto the CCP screen or wherever they're going to go, they should be advantaged by choosing one method over the other. I think that's one of the risks here, is you're going to get information, a delay advantage by going directly to a source being on the trading screen, for example, versus on a market data vendor. So, people will add value that was entered in different ways, and that's understandable, but, yes, the time (inaudible) available at the same point in time to everybody. And, technically, that's quite challenging. It's doable, and lots of markets do it, but it's not something that happens automatically.

MR. COOK: Are you saying one of the risks is that the market participants would get it before it got to the aggregator?

MR. GOOCH: There's potentially a risk if you're sourcing -- I'll make an example up, say one of the SEFs is going to publish a big chunk of the data, you don't want a situation where going to the SEF's own screen gets you the data faster than going to the public access data on that piece. A pre-trade, that might be different, but in post- trade, you want to feel like wherever you're running your analytics, whichever vendor you've chosen to do that, you're on a level playing field.

MR. TOFFEY: Yes, I agree with Jeff in terms of market structure. Regardless of where you do the trade, that aggregator needs to display that trade back out through all channels, Bloomberg, Markit. I mean, the technology does exist, and it's a little hard, but it's very doable, and then you have a completely level playing field for all investors, and I think that's the right way to go.

MR. OLESKY: I'd just make one comment. And, Jeff, you alluded to this. I think there is a difference here between pre-trade and post-trade information. So, pre-trade, I absolutely agree, everyone should have equal access, direct access. That should not be a competitive issue. It's critical that we can all get into the same flow at the same time. Pre-trade, it should be up to the individual platform, and, in my opinion, because that's part of price formation, so, for our business at TradeWeb, we're showing bids and offers on our screen. We have to be able to show those business offers to our customers or we don't have a business, and we can't broadcast that to the whole world.

So, in terms of price formation and the actual trade occurring, and a sort of pre-trade part, I think that should be up to the individual entity, whether it's a SEF or an exchange or whatever it is, post-trade, we want to have equal access, and similar to the access of the clearing corps, we should all be -- not a competitive point for any one entity that owns that function, whether it's central clearing or it's a repository for the information.

MR. HARRINGTON: I just want to make one more point. Sorry, George from Bloomberg again. Another key point I think that can really sort of assure that the goals that we're all talking about (inaudible) happens is regarding the independence. So, if you do have a designated aggregator or if you have a designated group of aggregators, if independence is a key tenet, and, of course, part of the legislation calls for that anyways, but as long as there's no favoritism involved in that process, and, therefore, while it's part of the role you don't even introduce a specter of having non-independence, and, therefore, not fair access and dissemination of the data.

MR. GIDMAN: And this actually goes back to the previous roundtable, which discussed some of the tensions of governance, and a lot of the thread from this morning, it's really all the same issue.

MR. MASTERS: I'd just make one final point. I mean, this goes to the whole idea of HFT and co-location, which I know the agency is very sensitive about right now, and that is even having this data a millisecond before someone else, there's a potential for a lot of problems. So, we've sort of been there and done that, and we've got the opportunity to create a new marketplace without those issues. We should try to do that, just sort of the last point on it.

MR. SHILTS: I'm going to move on to some of the other topics.

MR. GAW: I want to return to a point that Steve raised a few minutes ago, which is: What is real time? We're talking a lot about how to construct a system for real-time dissemination of trades and swaps and security- based swaps, and we haven't talked about what this very key term means. So, the Dot Frank Act puts a bit of a gloss on it. It says that real-time public dissemination has to be made as soon as technologically practicable after the time of execution. So, I invite the panelists' views on what "real time" means.

MR. GIDMAN: I wouldn't want to legislate it. (Laughter) It used to be real-time was T + 3. (Laughter)

MR. MASTERS: I'm not going to try to necessarily answer the question directly. (Laughter) But I'll give a version.

So, the reason that I was trying to make the point earlier about everyone speaking English is that to report from different SEFs and other places, there has to be a common language, a common thread so that the data can be synched, so all that data can be synched, so then, as soon as the data is synched into some standardized format, then the data can be released. But if even if it's reported in real time, and let's say the risk of the position wasn't reported, while all I have to do is take my calculator out, I can figure out the risk before someone else does, and I can do the hedging or whatever. So, I mean, to a certain extent, I would assume, and I'm making this assumption, but I assume this is going to be sort of like the ways people used to do the block trades with equities where you would go Autax -- I don't know if Autax exists anymore. But, any rate, you would go to one of these vendors, and you'd see an advertisement, and, of course, you don't know if they're real or whatever. But, I mean, everybody's fishing, but the pre-trade, you would go and you do the trade. You would do the trade upstairs, and as soon as the trade was done, you would print the trade on the floor.

In this case, we'd be printing it over the counter in some synched, universal fashion. As soon as the trade's done, it's done. Now, does that mean everyone has done their hedge already and whatnot? I mean, I don't know, but I would assume that they did in many cases because someone has to print the trade, and I think there's some discretion there.

MR. OLESKY: Yes, I think, Michael, you're raising a critical point which gets the variety of different risks associated with different instruments when we're talking about derivatives, and, in a principle-based market when one counterparty is doing trade with another counterparty, the more risk associated with that trade, meaning the fewer natural holders there are of that trade, the longer it takes for the person or the entity to hedge that exposure from having made the commitment to provide liquidity, the greater they're going to be at risk if that comes out quicker. And, so, it really does get to real time, I think, should be correlated to the type of transaction it is, and it gets to the block rules and it gets to the timeliness of real time really should protect the ability for risk-takers to actually extend and take on that risk of a transaction with sufficient time to hedge the transaction. Otherwise, what we'll end up with is they won't do that, although, price it in, and, so, you won't have entities willing to commit the capital to take the risk or they'll price it in significantly because they run the chance that they're going to have to have a harder time hedging their position because something becomes immediately public.

And, so, I think that is the balance here, and I think it's very much, I think, tied to the type of instrument we're dealing with, and it's hard to be universal and say it's the same for everything.

MR. GOOCH: Yes, I'd agree with that. I think part of the problem is the conversations are in so many different markets all at once, commodities to equities to raise the credit, and it's very hard to draw a black and white rule that applies to all of those markets.

I think from a technology perspective, the vanilla interest rate trades, for example, I think it was mentioned on the earlier panels here, we pick out within eight minutes of execution, on average, so, you could say a TRACE-type functionality would work, but this issue about the interplay with how quickly those trades are re-hedged is important. So, I think they ought to look at not so much the technology of grabbing the data or making it available, but the technology of taking the risk and removing the risk and saying it's safe to print out.

MR. BERNARDO: It's Shawn Bernardo. From the brokers' perspective, however you tell us to send those straight to you, whatever the timeframe is, we're able to do that, whether it's done voice, whether it's done electronic, or whether it's done hybrid. So, we'll accommodate whatever you come out with as far as regulations.

MR. GOOCH: And from ICE's perspective, I mean, it would be a millisecond or microsecond. So, this should be (inaudible) from ICE. So, as soon as technologically practicable, that's the way we read it.

MR. HARRINGTON: George from Bloomberg. I just want to reiterate because of the products, and we were intimately involved when we started clearing of CDS back in December of last year, because of the nature of the product, I think you really need to look at sort of the lifecycle before a trade has actually occurred, and it goes also back to the sort of the misinformation standpoint, and we don't want to be publishing about a trade just occurred when it's still stuck with the DCM someplace, who's considering whether or not to accept the trade, and then the trade may fall back into and OTC process or the trade will break and will fail. So, I think we just need to be very careful of misinformation in the market, and, therefore, while there's a tacit agreement that a trade is going to take place, there are a number of steps to get to before you actually have a legally-binding transaction.

So, I think walking through some steps in the process will be helpful as far as determining when real time actually is, and, for my experience, it's not necessarily when the counterparties are on the phone or when they're eon the screen.

MR. GIDMAN: This is John Gidman. I just want to agree with Lee's point earlier. The tension between a noble desire for real-time dissemination of data and the potential impact of substantially harming market liquidity and operation is real.

MR. OLESKY: And the equity markets were facing it today. I mean, this is the issue of will someone commit? As I said, our average trade size and interest rate swaps is $40 million. That's small. It can be a lot larger, and I know we're talking about block rules later, but this is a real issue across every single market, and it gets to the characteristics of the marketplace itself. Are there a lot of users? Are there a lot of transactions? Is this the type of transaction where there are only 10 firms out there that are willing to take the risk of an emerging market, CDS, single name?

There are only 10 guys who do that who will hold that risk, and if there's a certain size trade that occurs, everyone's going to know who it is and everyone's going to know what happened. It's less likely those counterparties are going to be willing to commit to the risk of that trade. And, so, that is a real challenge, and I think it needs to be framed by the characteristics of the market. How many end-users are there? How frequently does the instrument trade? What is the delta associated with it? What is the risk size of the trade, the risk characteristics of the trade?

MR. COOK: Some of the points that are being made echo a little bit back to the discussions around TRACE, real time, and what does it do for liquidity. And, Steve, I wanted to invite you to jump in a little bit on what your experience has been as you've had a chance to kind of test some of those arguments in that market, which understandably may be a different market.

MR. JOACHIM: Yes, we've studied the

impact of TRACE in the marketplace in as many ways as we can. In fact, we invite market participants to come to us, and we have over the last nine years, to come raise issues with us so that we could investigate them empirically and discover whether there was any validity to the concern because the last thing we'll do is do damage to the marketplace overall.

And factually based, of all the concerns that people raise in the last nine years, not one has played out as being valid, where we could empirically show that there was damage to liquidity or damage to the marketplace from (inaudible) a transparent marketplace. Probably the most prominent one was when the credit crisis took place. A number of market participants came to us and said we think that TRACE is exacerbating the liquidity crisis in the marketplace, that there was liquidity in the marketplace and that people are not trading corporates because they say the prices are transparent, and there's enough liquidity there, and it's getting worse.

So, we actually had a perfect experiment. We had 144A issues, which we do not disseminate, but we collect the transactions on, and compared the change in liquidity between 144A transactions and the publicly-disseminated portion of the marketplace, and exactly the (inaudible) was happening, that liquidity was actually holding up much better in a publicly-disseminated portion of the marketplace and dramatically different. It was the publicly-disseminated portion of the marketplace that declined about 80 percent year over year versus the 144a market had declined about 45 percent.

So, now, there are a lot of differences between those markets, so it's not, again, QED, but there was just no evidence that supported those concerns, and, in fact, what I would say is, in general, as we look at the history of TRACE and looked at what people believed would happen prior to the launch of TRACE and what did happen, there were dramatic differences, and I think largely because people just didn't understand. They don't know, and when you change a market from it's operating in one direction to operating in a very different environment, there's no question that transparent marketplaces are very different, and it takes market participants time to adjust to learn how to operate in those markets.

But we just have not been able to find any concrete negative evidence of effect in the marketplace, and, in fact, we found positive incident. One study was done that looked at marks to market in mutual fund portfolios prior to the launch of TRACE after the launch of TRACE, and found a dramatic reduction in the dispersion of those marks in people's portfolios afterwards. So, even though people don't depend on TRACE purely as an evaluation tool, it is one data point, but by having post-trade transparency, it'll have the effect of narrowing and making those marks much more consistent in the marketplace, which, in retrospect, probably would have been incredibly valuable and probably was incredibly valuable during the credit crisis.

MR. TOFFEY: I think there's just one other component to also add. Obviously, there's discussion and debate about transparency versus liquidity and the tradeoff, and Steve's point are valid. There's also the point about best execution and fairness to all investors, and a more transparent market always will lead to a better best execution market for all investors.

MR. OLESKY: I think also with TRACE, I mean, we support TRACE as a structure for doing things. I think the devil is in the detail with these things, and one of, I think, the good characteristics of TRACE that has helped stop it from being a problem with respect to liquidity is the fact that over certain sized transaction, you're not putting the specific number and the size of the transaction, and I would encourage looking at things like that as ways of limiting the risk to liquidity, and it's those details that are so, so critical, and it's different by each instrument, and I'm sure TRACE would be a very good model for looking at how to do this in the derivative space, but applying the unique characteristics of the derivatives markets and each of the different instruments into that kind of concept, just so I can clarify.

MR. JOACHIM: And just to clarify for people that don't know is that when we disseminate the transactions in TRACE, we cap certain sized transactions. So, if it's an investment grade bond and it's over $5 million, we just post it as $5 million plus. I think we look at this periodically, and is the right threshold, is it the wrong threshold, should it be higher, and whether that's the right threshold long-term or not is a question mark, but the concept is a good concept. And we do look at the largest transactions because one of the things we were concerned about was that one of the things we heard consistently from the industry was that large pieces wouldn't trade anymore, that the trades wouldn't get done. We know from talking to people that they're done differently than they were prior to the launch of TRACE. They tend to be done over a longer period of time, that people get them all done, but actually the percentage of transactions that are done over $25 million as a percentage of the trades over $1 million. So, institutional-sized trades, trades that are over $25 million has actually been incredibly stable over the 9-year period. So, TRACE really has an impact, and it's almost like a ripple. If anything, slightly increased, but it's pretty stable. So, again, it was more evidence that we've just not seen any of the adverse impacts that people had forecast.

MR. OLESKY: And this is Lee Olesky. At the same time, kind of accomplish probably all of the policy objectives of establishing transparency. Anyone can look on TRACE and figure out what a price of a bond is, and without sort of impairing the highly institutional side of the market, where someone might want to be trading to $500 million or $1 billion of an instrument. But it accomplishes the goal and the policy goal, which I would say we should always keep our eyes on of what are we trying to accomplish here with this transparency? And I think you can do it, and I think this is a good model for it.

MR. GIDMAN: This is John Gidman. Yes, I think the TRACE model is actually a very good prototype for this, and that the policy objective was clear and noble. The approach was practically measured, and the different requirements of different market participants were well-managed.

MR. SHILTS: Any one else want to comment on this?

MR. JOACHIM: Let me just say one more comment.

MR. SHILTS: Sure.

MR. JOACHIM: And then I'll be quiet. Is that the one thing that I would say is that if you asked all market participants on the buy side, you wouldn't get a uniform answer from everybody. Those players who believed in an opaque market believe that they have an information advantage, believe that transparency is a negative. And I think that's one thing that we're pretty comfortable on. And there are a lot of people who believe that, and --

MR. OLESKY: Not just buy side.

(Laughter)

MR. JOACHIM: Well, the sell side, by definition says that, but, actually, it is something you just have to recognize that that doesn't mean everybody is the same pre-transparency and post-transparency. It means that it levels the playing field and it changes the dynamics in the marketplace significantly in the way people have to trade.

MR. GOOCH: Jeff Gooch. I think it's very hard when you look at the stats around TRACE and its success because everyone has different views. And you have half the dealers saying one thing and half the buy side thinks another. All the academic studies and most of them seem to back up Steve's conclusions. I think one of the reason it's hard to conclude, over that nine-year period, there's a massive increase in the focus on credit markets as an asset class generally. So, the growth of the CDS market among other things at the same time.

So, it's really very hard to draw absolute conclusions, but I think was important about TRACE was, A, it was phased in, it does have these exemptions for larger trades to reduce the impact on the marketplace, and it clearly has been beneficial for certain segments of the market. I think even if people just say it's been a bad thing, wouldn't say it's been a bad thing across the board, and I think we've got to think about parts of the market that can be actively encouraged and through transparency and then make sure we would mitigate the issues in other areas.

MR. GIDMAN: This is John Gidman again. I think the other prototype to point to would be the rapid development of the trade information warehouse, and while it was influenced by policy objectives, it was also influenced by practical considerations, and it was kind of the invisible hand of market forces which made it very quickly address a longstanding problem that hadn't yet, thankfully, gotten to the headline.

MR. SHILTS: Okay, we've got about 10 minutes left so we can move on to the last question.

MR. GAW: What do you see as some of the potential costs of a trade reporting regime beyond the effects on liquidity, which we'll continue to address in the next panel? So, I'm thinking sort of operational costs, your sense of whether technology platform sort of like at the dealer, counterparty level will need upgrading in order to support real-time dissemination?

MR. BERNARDO: It's Shawn Bernardo. From the brokers' perspective, we already have these systems in place for 99 percent of these products already in some way, shape, or form. So, as far as upgrading them, we're upgrading the systems on a regular basis. So, I think, again, we can accommodate the needs that you have, and we currently do a lot of the reporting and (inaudible) processing with the firms that we're speaking of.

MR. JOACHIM: I think that some of the costs will depend on, again, the product we're talking about, as to how much automation people have in place at the point of sale, and I think that's typically where it's hardest to get your arms around exactly what the cost structure is because you have a lot of market participants in there, and everybody has a different environment (inaudible) tremendous amount of automation. Not everybody is going to have the same level of automation so people are going to have to build automation in place.

You're going to have the cost of creating a system in place that's going to aggregate it unless you can piggyback on other environments, but that's something you have to face is how you get the data together, the rules of how they report, how the system will collect it if. If you're going to put risk in place, you're going to have to build models in place to generate those measures for people. So, they're going to be operating costs from a technology side. On an ongoing basis, you've got to maintain technology, you're got to update it. Typically what happens is the market gets faster as automation gets in place and transparency gets in place, so, you're going to have to accommodate faster, more trading, different trading. They talked this morning about the creation of new rules. You don't want your transparency regime to slow down the innovation process, so, you want to be able to facilitate that, and you need to be sure you build technology that's flexible enough, and it's modified on an ongoing basis to accommodate markets as quickly as you can.

Those are all real cost to do that. There will be enforcement costs. I mean, we talked before about if you create a set of rules, you've got to enforce those rules, you got to be able to go out and visit the counterparties and see what they're reporting and be sure they're there. So, that's going to be an expensive proposition in terms of getting people out in the marketplace to ensure that the trades are being reported adequately and in place.

So, that's just some of the costs. There's probably more if I think about it.

MR. GIDMAN: Yes, this is John Gidman. I mean, in my view, it's much more about the choreography and really starting from the back and then going forward. And, so, getting the data repository right in terms of the aggregation, getting that right first can help inform what the front needs to be able to do and how it plugs in. Getting the zymology, the universal identifiers for the deal and the counterparties is critical because then you begin to have at least the framework for a common language that can evolve over time.

MR. GOOCH: Jeff Gooch here. I think the cost of collecting the information will vary by asset class. Some asset classes (inaudible) had an interest rate and credit market, but inter-dealer markets, these dealer-brokers find information out very quickly. Most (inaudible) heavily automated, I think cost implication, there's going to be a relative delay if you reuse existing market infrastructure. Another asset class is like equities, and commodities is more work to do. Parts of those markets are very automated parts. So, I think the collecting is going to vary. I think one cost people don't think enough about is the cost of the end-user community of actually making use of this public information.

One thing this is not going to be like is TRACE. TRACE is a very easy thing to understand. I'm a dumb (inaudible). I couldn't understand a TRACE ticker or the screen. I see the bond and I see the (inaudible) see the price, I know I did a good trade. An OTC derivative is a lot more complex. Some of these trades have 100 fields. These are very complex things to simulate, and by making that data publicly-available, everyone who plays in those markets has to be able to understand that ticket, what it means for them in order to do the best execution to protect their clients at the end of the day. So, I do think there's going to be a substantial cost in terms of the industry absorbing this transparency and actually using it for something. Because the option of sitting as a fund manager and saying I'm not going to look at any information, but I can still show my clients I'm doing a good job is going away.

So, there's going to be several thousand institutions that are going to have to spend a lot of money, and, hopefully, the vendors around this table or somewhere else, trying to actually understand this feed and make use of it, and that's probably a cost we never seem to talk about, but I think it's a very real one.

MR. JOACHIM: The other thing I'd say about that, Jeff, is that the buy side is the one place where they probably also get the benefits in terms of level playing field and the transparency and the limited information. So, the cost of digesting that information for the buy side is probably very small compared to the value and benefits they get immediately. The sell side has often much more mixed feelings about it.

MR. GOOCH: Yes, I think (inaudible) if we focus on getting cheaper execution to buy side, then that balance works. If we create a regime, because liquidity impacts, I think, doesn't give them a cheaper execution, and the numbers are not going to stack up. Honestly, I think transparency is a good thing, but it's important part to focus on.

MR. HARRINGTON: It's George Harrington from Bloomberg. I think this is an area where you can actually look at the TRACE model. One of the things that we do is we provide to the sell side order (inaudible) functionality, and most of the major dealers actually in the credit markets will use us for that, and, therefore, for Steve, we have a number of different feeds for TRACE rates that are going directly. I think this discussion will almost come back, and I know we've been on this before, to the collection point.

So, in other words, if we say okay, now we're going to have all of this data that's going to need to go from the sell side or the inter-dealer market down to all the SDFs, all the regulators, you're going to have all these new feeds that are going on. That's going to be a lot of work. So, in other words, yes, we can all do it. We'll have to do individual feeds for. Now you have the IRS, the CDS does equities, FX commodities. So, you're talking about laying a lot of new ground. Obviously, there'd be some work that can be redone. Versus if we end up saying that okay, now we're going to either go down the role of an aggregator, someone who's going to take it in or we're going to go down the road of saying the SDFs are the right place for these data to be aggregated and pulled in from, then it's a little bit easier.

Yes, the decimals still have to do delivery to get the ultimate trades down there, but as far as dissemination goes and displaying that data out to the end- users across the different vendors who obviously compete it that space, it's going to be a little bit of an easier process. Either way, it's going to take work from all of us to get there. But I think that if we either go central or a few places where we actually have to pick up data from to give back to the user community or to the public then that would make it a little bit smoother process.

MR. AXILROD: This is Pete Axilrod. I just wanted to add at the risk of maybe repeating myself that it's really the total market picture. We've spent a lot of time focusing on price. That's important, but other aspects of the market are equally important, and it's important to make sure that that data is also disseminated appropriately on an equal opportunity basis to everybody. And I think for end-user portfolio managers in particular, the more of an overall picture of the market that is out there, the better off they are. So, again, let's not focus entirely on price, but other aspects of the market, as well.

MR. GIDMAN: This is John Gidman. I mean, open interest collateral implications are every bit as important as price.

MR. SHILTS: We just have a couple of more minutes. Any last-minute comments from anyone?

MR. MASTERS: I'd just make one final point very cynically about your point, John. I mean, I think sometimes banks, they say well, we're not using this specific customer data, we're just using (inaudible) whether it be prime brokerage data or whatnot. I mean, that's more valuable. It's not less valuable. I would rather see the aggregate than the specific customer data. That's how valuable it is to me.

So, in terms of this data, we absolutely have to see all of it, and it's critical that we see all of it, and then that swap dealers and other people that are doing trades report all of it, again, in a consistent English language format.

MR. GIDMAN: Yes, all of it in a consistent way as of the same time.

MR. SHILTS: Okay. With that, I want to

thank all the panelists. This was a very interesting discussion, and we ended about right on time. So, we're now going to have a 15-minute break. We'll start again at 3:45. Thanks again, everyone.

(Recess)

MR. SHILTS: If we could get people to please take seats so we can start. If everyone could take their seat, please, so we can get started.

I think most everyone is here, so we can try and get started. This our last panel of the day. This is going to focus on effect of transparency on liquidity and the block trade exception.

So, at this panel, we want to get some input on defining block trades and large transaction sizes, determining the appropriate delay for reporting block trades and large notional swap transactions and the affects of transparency on post-trade liquidity. And as we have done with the prior panels, we can start by going around the table and everyone can introduce themselves and say where they're from.

Again, I'm Rick Shilts, director of our Division of Market Oversight here at the CFTC and Robert Cook is to my right, director of Trading Markets at the SEC. With that, let's go around the table quick.

MR. MASTERS: I'm Michael Masters with Masters Capital Management. I'm representing Better Markets.

MR. WOLKOFF: I'm Neal Wolkoff. I'm the CEO of ELX Futures Exchanges.

MR. SHAPIRO: Peter Shapiro, Swap Financial Group. We advise end users of derivative products.

MR. SPATT: Chester Spatt. I'm a professor of finance at Carnegie Mellon. In the middle part of the decade, I served as chief economist at the SEC. I'm also currently a member of the Shadow Financial Regulatory Committee.

MR. STEINER: Jeff Steiner from the CFTC Division of Market Oversight.

MR. LEAHY: Tom Leahy, Division of Market Oversight, CFTC.

MS. SEIDEL: Heather Seidel, Division of Trading and Markets, SEC.

MR. GAW: Michael Gaw, SEC, Division of Trading and Markets.

MR. PAYTON: I'm Dean Payton. I'm the managing director of Market Regulation at CME Group.

MR. VOLDSTAD: I'm Connie Voldstad. I'm the CEO of the International Swap and Derivative Association.

MR. SONG: My name is Yunho Song and I'm a senior staff member and a senior trader on the Swaps Desk at Bank of Merrill Lynch.

MR. SHILTS: Okay, and we're going to try to end this as 5:30 sharp. So, as we have done with the other panels, we will start off with some questions from the staff and then everyone should have an opportunity if they want to make any comments on that particular issue or question and, again, if it goes a little too long, I might try to remind people to be a little bit brief, but we hope to get all the comments in. So with that, let's start with the first topic.

MR. LEAHY: I think I'll start fairly basic. How should we define large notional swap transactions and block trades for swaps and security-based swaps?

MR. VOLDSTAD: I won't be bashful. Connie Voldstad. You know there are a lot of different markets that derivatives are executed in. I think one has to take a very, very careful approach, look at each of the asset classes, look at each of the products within the asset classes, look at each of the maturities that the instrument is associated with. I think you need to look at the number of participants in the marketplace. Many, many fewer participants in derivatives than there are in most exchange-traded products. I think as well you need to look at the frequency of trading. Even in the most liquid markets, you'll find that even in the most liquid -- let's say -- interest rate swap, products worldwide, you might only see one trade every five minutes or so. Some sort of a 10-year interest swap in dollars. So I think you have to look at each of those products. I think each of those factors and then determine at what point we start influencing liquidity if you have to reveal price and size information.

MR. SPATT: You know to follow up on that -- to follow up on the -- this is Chester Spatt of Carnegie Mellon. To follow up on the last point, it seems to me that the most important aspects for defining a large size transaction is at what point does the size of the transaction really start to move the market? So, to some extent -- and that's going to then difference -- obviously, that's going to pick up differences across markets. To some extent do they even suggest perhaps differences over time?

Some of the academic literature on the equity -- on equity trading, at some point, kind of got stuck and because, at some point, historically 10,000 shares was a big trade, the academic literature on equity trading, at some point, kept using 10,000 shares as if it was sort of the key -- a particularly key number. But I think for the kind of purposes that you're interested in, what I think really determines size is to what extent is there -- to what extent is there market impact? And especially at what point does market impact really take off in a nonlinear fashion? So I think looking empirically at price impact is potentially very, very important.

MR. SHILTS: Just as people comment on that, how do you focus on that given the large variety and number of different types of swaps? So that -- I mean, if you looking at market impact? Is it -- are you looking at it for like something kind of an on the run type of instrument say of an interest rates? Or when you look at all the different spoke-type instruments, how do you make that determination? I mean it makes sense, you know, theoretically. But how do you do it practically?

MR. SPATT: Well, I think I would start with the most -- I would be inclined to start with the most liquid instruments. Sort of see what we can learn about that in terms of the size and scale, and the perhaps you try to look at other instruments that might be representative. And it may be that issues like the numbers of trades and the volume of trades and the like may provide kind of indicators, but, you know, I simply wouldn't look at the most liquid instrument. I would be inclined to look across instruments. And it seems to me that one can potentially approach this issue of price impact precisely because you have all of the transaction data, so it makes it potentially possible to use econometric methods to try to piece this issue out.

MR. SHAPIRO: I think, Professor Spatt -- or should I say Chester or whatever -- his best is spot on. I think it's exactly what you're going to have to look at, which is the market moving implications within the specific product that you've got. We've tried to play with -- I should have said Peter Shapiro is my name. We've tried to play with ways of doing that for specific kinds of instruments. Our business works advising end users in the -- principally in the interest rate swap area.

Because we handle a lot of tax exempt borrowers -- that is both governmental and nonprofit -- we're often in a -- in interest rate derivatives that involve the SIFMA index. The SIFMA index, you know, one of the principal benchmark in the tax exempt market and there's limited liquidity in that market pretty much across the entire yield curve. A lot of the transactions -- because they're looking at long live borrowings -- will be out as long as 30 years. But even if it's 10, 15, 20 years, we will see liquidity effects that are there.

The size of the borrowings -- because remember -- and it's important to focus on this. When we're thinking about the end user's interest, which is where we come from -- when we think about the end user's interest, we're thinking about the fact that what is the end user doing? That end user, in this case, is borrowing a lot of money to finance a public improvement -- something which is part of the public good. And those borrowings can be easily $100 million, $200 million -- or in the case of one of the examples I was thinking of -- we worked on one transaction recently that was 1.8 billion in SIFMA. Huge market moving potential on that. How long would it take that to settle through the market in an orderly way? The metric that we would tend to look at is how much volume is there in the market in that instrument of that maturity in any given day?

And if we wanted to take a billion dollars and say that there was -- if we could put a hard number in and say that there was 200 million of volume in that market in a day, then we'd say it would take 5 days for that dealer to be able to settle his hedges. If he had to be exposed to real-time reporting in a public manner, during that five day period or at the onset of the transaction entered into between my client and that dealer, the dealer would either say no or he would say you, Mr. Counterparty, you, Mr. End

User, you public agency are going to have to pay more to cover my risk. And that's not the result that we want here.

The result that we would hope for in the public good here would be beneficial transparency not harmful transparency. Not transparency that would result in frontrunners being able to get out and position themselves in a way to try to make money off the fact that a public agency was trying to hedge something, but rather giving what -- in the case of the actual transaction I'm talking about -- a quiet period for the dealer to be able settle his hedges in order for the end user -- the issuer of the debt in this case -- to be able to get his transaction done at a better price.

So I think about it in terms of everything numerator and denominator -- if there's a volume that we can measure versus size. If the size of the deal is five times today's volume, make it a five-day delay.

MR. MASTERS: This is Mike Masters. I just wanted to make one point, which I made in the earlier panel, which I think is probably more applicable to this panel than it was prior but -- the whole notion of post -- pre- and post-trade. Pre-trade, you know, there's a negotiation period. There's a -- so forth. There's the amount of hedging that has to take place. And then there's post-trade, which is a dealer prints the trade. I really don't see any reason why post-trade reporting can't happen -- you know -- basically a standardized, which I described in the earlier panel, a format of reporting that's, you know, in some delta equivalent that easy to get accessible to regulators and to the broader public.

But there's -- but in terms of post-trading, the transparency requirements are much more lenient. There's a much wider gap for transparency. There's a much greater public need for transparency in post-trade reporting.

The pre-trade reporting is a different issue completely. You know, pre-trade reporting is almost an oxymoron. I mean I'm not -- you know, the trade hasn't happened. And so you're negotiating -- yeah, I mean, I don't want people to see that, but once the trade is done -- and I understand the need for hedging and so forth -- there's some sensitivity there. But there needs to be public access to that data in some regular form, which we can all see -- again as I said in the earlier panel -- in an English format -- a risk based or a delta equivalent nationality to the trade.

So I just wanted to make that point.

MR. VOLDSTAD: And you're happy if the public body has to pay an extra 10, 20, 30 basis points because they'll get a worse price?

MR. MASTERS: I think that -- and someone made this point in the past panel. I believe it was the gentlemen from TRACE. There is a cost to transparency. Opacity -- we know the cost with opacity. We just went through that. So there is going to be some cost. There's a balance. There's no doubt. And is it going to be slightly more costly? I might be at the margin. But at the end of the day, I would argue that having more transparency gives a benefit in terms of bid and offers and so forth tighter over a longer period of time.

MR. SPATT: So just to follow up on that as well, in the three years that I was at the SEC, was basically coincided with the three years after much of the implementation of TRACE. And while folks from industry repeatedly came in and pressed the point that spreads were wider, they never presented to us in any format a convincing empirical study and nor am I aware of any empirical study in the academic community that shows those effects. So I do think it's incumbent upon critics of post-trade disclosure to point to and identify convincing empirical evidence of these effects. And I think that's extremely important to the regulators as they go forward, but I must say, I'm not aware of that evidence right now.

MR. VOLDSTAD: No -- I'm sorry.

MR. SONG: If I may comment on that -- I think one of the distinctions we have is a market that may be more smaller in retail based versus a market that is with far small number of participant and that's institutional based. So, you may not be able to, for example, find who was doing a specific trade looking at trace report so it has a marginal impact on the marketplace. But as Mr. Shapiro was point out, if you saw a print go through for $1.8 billion against an illiquid index, you can narrow down to a handful of people who could possibly have done that.

MR. SPATT: This is Chester Spatt again. So I fully -- I would fully accept that, but, you know -- I fully accept that example and I also fully accept that derivatives are sort of very different than the bond markets and, indeed, to reinforce your point, where the empirical evidence of anything was even stronger was in the municipal bond market as compared to the corporate bond market. The municipal bond market customers were really getting hosed in the prior environment. The municipal bond market is perhaps the only market that I'm familiar with in which the spreads were substantially wider for tiny transactions than they were for large transactions.

But I also think -- but I think also the phrasing of the arguments that are now being presented in the derivatives context, it's important to keep in mind that those were exactly the arguments that were brought to bear in the bond market context. Of course, then one wasn't saying that the bond markets are different than bond markets -- obviously a point you couldn't argue that. But it does seem to me that the absence of evidence in the bond markets does kind of suggest some initial -- some at least some initial buyers and it's important to try to at least create the natural -- it's I think going to be at least important for regulators -- and this is maybe something they might want to consider -- to perhaps setup some natural experiments.

You know, I think the natural experiment that the Commission did in the context of the short sale regulation really was terrific because it allowed careful identification of the empirical effects and maybe it's possible to do something like that in -- do that in some of these markets and not other of these markets and then do before and after and difference types of comparisons.

MR. VOLDSTAD: Chester, there is a difference. TRACE is a $5 million limit. After that, there isn't really disclosure other than is 5 million. If you were going to trade a billion-eight of a corporate, and you had to publish that through TRACE, you're going to move the market. It's -- I -- if you look at what the Europeans are suggesting with respect to credit default swaps, which I think are very close to corporate bonds. They're saying there should be real-time disclosure of prices for 5 million and below. That is the retail side.

In fact, very little transactions will go through at 5 million euros or below or below 5 million euros. But then they have different categories of disclosure for 5 to 10 million euros and for over 10 million euros. I don't think we're arguing about small transactions, which is what TRACE is all about. We're arguing about a billion-eight kind of muni swaps.

MR. SPATT: I think my point was mainly to just argue for the importance of empirical evidence. The empirical evidence was extremely important, I think, in the assessment of bond studies. And I would call upon the regulators to look to and encourage the development of empirical evidence and potentially even to do natural experiments to help sort these issues out and to maybe do so -- you know, and one of the things that I thought was very impressive about how the NASD went about the implementation of TRACE as the prior panelists described was they rolled it out in a gradual way. Because at each stage they were looking -- on the one hand, at each stage they were looking for problems that might arise, so they did a gradual rollout.

But then it also facilitated empirical comparison across stages and it seems to me, you know, to the extent that there's agreement that $5 million trades aren't big and -- you know, so are

$10 million trades too big? You know, those issues -- let's put those issues to the side. But you could imagine you could kind of gradually -- one could gradually adapt the rules and change the lines and try to understand the issues.

MR. SHAPIRO: I think there's a way to accommodate both needs here that's really very sensible. And I'm not -- I'm just concerned about looking for empirical evidence may be very difficult to do given the multifaceted nature of this market, how many different pieces there are that we could spend a decade doing that and you obviously don't have a decade to put out these rules. Thinking about this, I don't think anybody would be arguing that there should be no disclosure.

I think the only question is when something is a big enough block, how much of a delay is reasonable in disclosure on it. And it's important, I think, to think back through what the structure of the transaction is that you have. In the case I'm describing, the end user dealing on an over-the-counter basis on a bespoke product with the dealer. And then the dealer is laying off the hedge on a -- in chunks over time in order to make it so that the market is working in an orderly way in the dealer's interest -- which, in effect, if it's in the dealer's interest, should be passed along to the client if things are working correctly. If we think about the reporting that would go on in the sequence that I'm describing, because I wanted to deal with what Mike was saying there. This would be -- there would be a trade that would occur between the end user and the dealer. Then we have a post- trade environment to use the wording you were using there at that point. At that point, you wouldn't have the disclosure in real time because it would be a market moving transaction -- assuming the size parameters that we've described.

Immediately after that, the dealer would begin his hedging process. And the dealer would be hedging in that case in interdealer markets, in exchange traded markets -- all of which would be being reported contemporaneously. So in other words, his subsequent hedging trades would all be being reported. All of the laying off of the hedges that he did would be being reported so that there would be the real-time price discovery that's the public good that we're trying to get at.

The only public good or the only transparency that would be missing here would be the instantaneous real- time reporting on the market moving original trade between the end user and the dealer. I'm not saying that would never be reported. I'm saying that would be reported after a reasonable delay. The question is how much of a delay would be there.

MR. SONG: Well, if I may add or just build on what you said, Peter, because I think you're spot on. I think there's -- if I could put this concept before everyone to think about is maybe one of the ways we should report this, because no one is disputing whether we should report these trades, instead of reporting the exact size of the transaction, maybe what we should agree is that we agree to like what TRACE does is with a greater than concept. So, let's say the median-sized trade -- I'm just using these as an illustration -- is $10 million. And if you go to -- I don't know, this is something we could look after this committee -- but 75th to 90th percentile trade is say $30 million. So then the reporting requisite is you have so many minutes to report a trade that you have done a trade greater than $30 million. So like in the illustration that you used for public finance, you know, the dealer would report -- let's say the block trade definition would have been 50 million. He just reports we did a trade greater than $50 million. And that's it. And so the information is disseminated. There is a block trade going down, but the exact specific structure and size is not given so that it also protects the interest of the largest end users.

MR. SHAPIRO: In the muni bond market, to take Chester's illustration before -- EMMA --

the electronic disclosure system that's run by the MSRB, which is an excellent system, has a very similar device where if it's over a certain size it just reports.

MR. SONG: It's over a certain size, right?

MR. SHAPIRO: It's over a certain size. Later, I think they do update that. What I would think would be good here would be to have an initial report that could then subsequently be updated as to size when there was a reasonable period of time to allow clearing.

MR. SPATT: I'm certainly very comfortable with that. And that's also consistent with the TRACE design as well.

MR. MASTERS: I'd just say there is one issue, I mean, in the sense of it I'm not -- there's a balance here. I mean, obviously, I understand there is a cost element to, you know, putting a giant trade on the tape and then having everybody under the sun front run the trade. I get that. On the other hand, I would say in most circumstances -- and when we had the block trading process of equities to go back and look at. When I mean blocks, I mean, you know, half-million, million, you know, decent size blocks. There is some time allowed to get -- to do a hedge, but there's not forever. I mean, it's not as long as -- it's certainly not a week or anything like that. I mean, you're talking about hours.

And I would argue to your point, Peter, if you're saying okay, well, you know, you're going to see some of it -- you know, some of it goes and you'll see it in the overall market or what not. You know, to a certain extent, I'm -- you know -- I'm arguing the same thing in a different manner in the sense of as soon as that trade is negotiated, the hedger knows what his hedge is, you know. Or the swap dealer knows what the hedge is. I mean, there's a level risk of risk that he has to hedge and the idea is to equivocate that into its normal listed counterpart.

That's the whole notion is to bring this down to an equivocated to its nearest listed counterpart so that we can look at it as market participants and not be -- or look at it is regulators -- look at it on a level playing field, look at the information and know that the information -- the trade is -- has a certain delta. It has a certain delta equivalent to some listed counterpart. And now we can compare apples to apples. Now we can do that.

But with regard to the actual trading, I'm not so sure if you do that when you're reporting a trade that you're not getting the same thing because if the trade is actually going through other markets in terms of the hedge and the dealer is laying off hedges and so forth -- I get that, but it's not forever. I mean, there needs to be -- it needs to be pretty quick, I mean, because the public suffers the longer the delay is. I mean, there is other market participants and whatnot. So there's a balance here, but I would argue that it needs to be quicker rather than later.

MR. VOLDSTAD: I think we probably started with a bad example. I think more to the point would be in the interest rate word -- interest rate swap world. You'd probably start by making a comparison to the futures world where you get -- you have the block trading. You do have a block trading exemption, but you have five minutes to report. I don't -- I would think you'd need probably a bit more in the interest rate swap world because it's a little different. It's not a continuous market. It certainly doesn't trade nearly as frequently, but you'd start with, you know, a very, very finite period of time -- nothing like hours or days.

MR. SONG: You know, again, for this committee, I had -- I want to just put a concept on the table. And I'm speaking specifically for like the interest rate swap market -- is I've been giving this a lot of thought. And I was thinking what we need is like a matrix reporting schedule because the trades get more difficult if the maturity is longer. So, for example, I mean, obviously, a 50-year swap is far less liquid than a 2-year swap. So I would say -- without delving into the minutia or the details here -- that we should think about that. We have a scale, like a matrix. So you say if you do a one-year trade, you have five minutes. And if you do a 30-year trade, as an illustration, you have 3 hours because the liquidity and the time it takes for people to work itself out. It's not the same. It's -- you know, it's not only size, but it's also maturity dependent. And as -- again, as Peter mentioned, it's also index dependent.

And I'm not sure if this is the right format, but we also need to contemplate maybe carving some products outside of this requirement. And the only reason I mention that is because it could be so difficult. There could be so many nuances. Like when you look at, like, interest rate options, caps and floors, European swaps can fit into manageable grids. But you're getting to these customized options with, you know, knock-ins and knock-outs and double no touches and Bermudans and I don't know how you would implement something like that because there would be too many tangents coming out. And as long as, you know, what we're trying to do is we're trying to capture the body of the market, the essence here, right. And the big plain vanilla markets do that.

MR. MASTERS: You know, I'd just make the point, I mean, obviously, you know, with any of those trades, you know pretty quick what your hedge is going to be. You know, obviously for an option or a (inaudible) or any kind of product within any optionality, you're going to know your delta, your gamma, your theta, your vega -- all those kind of things pretty quickly or you're going to be able to estimate those. So, I mean, that's not something that's really rocket science. I mean, I made this point in an earlier --

MR. SPATT: No, but it could take you two weeks to work out up a position, though.

MR. MASTERS: That's -- you know, that's a different issue. The issue is the standardization of the language.

MR. SPATT: I think some of us at the table might be somewhat uncomfortable with a two week carve out. But, you know, I -- you know, while I'm not unsympathetic to you're -- to the grid notion, I guess I would caution that then the examples that you cite, to the extent that they don't fit very well within the grid concept, doesn't mean that there should be a carve out for them. They should still be held to some set of standards. And I think that's sort of very, very important. While probably my preferred way of organizing this wouldn't be in terms of a grid concept, it would be more in terms of the -- in terms of what kind of sizes move markets as I explained before.

You know, if one did a grid concept, you certainly shouldn't exempt things from the restriction -- from the parameters just because they don't fit the grid very well. If anything, that kind of suggests the other way -- that the safe harbor ought to be just the reverse. Then if they don't fit the grid very well, you know, then they get the worst treatment. That seems to me sensible.

MR. SONG: No, all I'm basically saying is that we need to -- I think all would like to implement rules that are readily enforceable and also that people can follow. That the problem with the challenge web with derivatives is that there's so many myriad of products and tangents that I just want to be careful where two percent of the product slow down 98 percent of the process. That's all.

MR. SPATT: Well, I think the exotic products though are very important. And they are very important because, you know, if we look -- and I don't think we want to form, you know, everything we do with respect to policy by what happened in '07 and '08, but one of the things that happened in '07 and '08 is that there were some failures in derivatives. But those failures really weren't in the standardized -- the failures weren't in the standardized products. They were in the exotics. They were in kind of -- they were in the kind of products that AIG was working with. They weren't on the kind of products that were on the organized exchanges or the types of contracts that were sort of standardized -- kinds of contracts that were trading bilaterally.

MR. WOLKOFF: Right, but -- I'm sorry.

MR. VOLDSTAD: I talk too much.

MR. WOLKOFF: Not at all. You've said good things. You know, I think it's important to note, one, a lot of the statute provisions on this stuff does not require that exotic instruments be traded. So, you know, one of the problems you could say was that they weren't cleared either. So there was no after the fact position reporting. There was no margining. There was no open interest reporting. There was no identification of a trade with a particular entity, whether it was an intermediary or a principal.

And I think that one of the issues that we're -- we really need to keep in mind -- certainly you guys and the ladies and gentlemen here -- need to keep in mind is that you're beginning a process where right now you're at zero. All right. It's not like you're at 80 and you're looking to fill in the last 20. You've got futures contracts, which serve as benchmarks. They're references.

About -- close to 20 years ago, the OTC market developed because, in large measure, the futures exchanges were unwilling to accommodate the types of products and practices that they wanted and so, as a result, they left the exchanges. And right now, what you're looking to do is to bring products within a regulatory structure. Some of them, if they're liquid and meet other criteria, will be traded. They'll be actively traded. You're asking what the block threshold should be. And it's to those products whether they're traded as swaps, whether somehow they are able to make their way onto DCMs, contract markets as futures contracts.

The policies need to incent those products to come into the regulated marketplace and not to adopt new criteria that keep them outside the regulated marketplace and make them less vanilla then they are. I don't get the feeling that the dealers -- and certainly the buy side -- really are looking to play games with us. I think people are looking to be wary of the unintended consequences and being forced into money-losing propositions in the name of -- in the name of transparency.

So when trades are done, how do you incent the marketplace? I don't think you take the same kind of restrictive block trading policies that the exchanges have taken. I think you are less restrictive, even for liquid products. I think your quantities should be lower. I think your reporting of the trade should be longer and then they should be reported. And I think you'd deal with less liquid, or what we're calling exotic instruments, on a completely separately level and let the market develop. And as the market develops, hopefully certain instruments will become standardized enough that exchanges themselves will have a role as long as they're not regulated out of this market -- which is certainly one of the concerns that I have is that we will be the exhausted SEF and not really allowed to compete in this marketplace. But I think as the market develops, you'll come up with greater and greater standards.

But right now, just remember, you're at zero. You're not in a developed market. You're dealing with a hypothetical where no one knows exactly how this is going to go and the only piece of empirical evidence that I have is that originally when the market wanted to innovate and the exchanges said no, the markets left the exchanges. Right?

So markets have a tendency to go where they want to go, where business can get done in the best possible way and, yes, there's probably some aspects of that didn't develop so well over time. But if we're looking to address the major pieces of this market and there are a number of interest swap transactions that are relative straightforward, I think the marketplace would be happy to trade some of them. There would be new entrants. But I think lenient policies as far as block trading, post-trade reporting are critical in getting the market to develop in the way you want it to develop as opposed to finding ways to stay away from the regulatory environment.

MR. SONG: Oh, and Chester, I just want to clarify. When I mean a carve out, I don't mean exempting these products forever. It's the point that you raised, which I think was a very good one. It's like what they did with TRACE. They did it in steps. So as an initial step, I would encourage everyone to think about maybe getting the plain vanilla products on first and then up the scale of the more difficult and nuanced products. It's not to ignore them believe me.

MR. SHAPIRO: I would just say I think that disclosure -- and that detailed disclosure is important. I think that all of them could be disclosed. The only question really is how much of a reasonable delay that you want to have. And that -- I don't think there's anybody that -- I don't know if you're arguing in that there should be a forever delay in disclosing (inaudible). Yeah.

MR. SONG: No, no. It's not a forever delay. It's just thinking about the practical implementation. As we said, is -- we just -- if we do this and which we agree with -- just step by step go out.

MR. SHAPIRO: To take --

MR. SONG: Because the disclosure issue is how much do you disclose? So, it could -- you know, it's like even with structured products. If you say, okay, you got to disclose this by the end of the month or end of the quarter exactly what you've done. I don't see any problems with that at all.

MR. SHAPIRO: Yeah, I -- and I don't think we have to wait that long. I honestly don't. Someone in the prior panel said, and I think they were describing it in terms of fields. They were saying of all the fields that should be disclosed, all the details of the trade. I think that's the right model to look for. You want to have as much disclosure so people can figure out what is going out as much as possible.

The worst thing, frankly, is when there is disclosure and people try to de-engineer and can't figure it out and come to wrong conclusions. You want as much accurate conclusion making that you can have. But to take -- to build upon Chester's point before, which is the standard -- if the standard is what's going to move the market, what's going to move it in a negative way, I think there's a way to design an approach here which would work organically as the markets mature.

Dodd-Frank is going to create maturation. It's going to create more transparency, more exchange trading, brining this market more out into the open in the ways which are all good and laudable and what the public purpose is supposed to be. If we look at the way -- if we were looking at -- to take my illustration before -- if even to reduce it in size, a $200 million SIFMA swap. If we could see, by looking at an exchange, that 100 million trades in a day, we could say, all right, we'd measure that would be a reasonable delay to delay disclosure of that $200 million OTC trade by 2 days. If 2 years from now, we see that they're $200 million trading in day because the markets are maturing, that delay will naturally move.

If five years from now, obviously, it's trading a billion a day, there's no reason for there to be any kind of significant delay. The market itself can help provide the guidance as it does develop under the -- under the new regime which is going to be put in place thanks to the work that you folks are all doing.

MR. VOLDSTAD: I would point again to the futures market. There actually is a grid there interest rate-wise. It might have been determined based upon market movements, but there is a grid for euro dollar contracts, two-year notes, five-year notes, and so on. And those limits are reviewed and I don't know the whole history of it, but I'm sure the exemptions now are much, much higher than they were five or ten years ago. And that's how -- which I'm agreeing entirely.

MR. PAYTON: Just a function of liquidity, right?

MR. VOLDSTAD: Yeah, exactly.

MR. PAYTON: I mean, you're measuring the depth of market and saying okay what's going to move the market? You know, where do we want to make that balance, right, between price transparency and competitive execution versus being able to do something away from the marketplace. And, you know, I think to Peter's earlier point -- I mean, there are two different issues here because it really is a question in some respects of the type of product that you're trading. You know, when you're dealing with a situation where you've got some bespoked product that is not in and of itself really a price discovery contract, right? What relevance, right, does every exotic, you know, over-the-counter transaction have to the marketplace? I think what Dodd-Frank was trying to do, right, was to really address more fundamental concerns right, about actually having disclosure of those transactions, right. The regulators need to understand what those transactions are and that's a different issue than price discovery necessarily.

Right, so I think that when you actually think about the way that, you know, these transactions work in the futures environment, right, I mean it's very clear. I mean, when we list a new palm oil product that has very little liquidity, I mean, our block size is 10 contracts, right. In euro dollars, right, it's 4 billion. So, I mean, there's -- you know, a very significant difference there. But you also have to be careful because to try and think about the complexity of defining block levels for the array of products that are covered under this legislation is mind-boggling.

So I think to the point that was made earlier, you know, you need to start with, you know, where there's liquidity and where there's price discovery and build, right, from that.

And, you know, just the other point I'd mention to Peter's point earlier, that, you know, you can't necessarily look at those products in a vacuum either, right. Because there are products, you know, particularly in the world that we live in today, where you've got look- alike swaps, right, that are, you know, trading adjacent to regulated futures markets, right. And, you know, you have to make sure that there's a level playing field so that you're not siphoning liquidity from, you know, the more liquid price discovery market in that context.

MR. GAW: So if could ask a follow-up question, how do we as regulators distinguish between the true exotics and other instruments that are slightly unstandardized that are pretty close substitutes to standardized instruments? And this gets back to a point that Neal was making before. If I understood you correctly, you were advocating a different block trade regime for the exotic instruments. And -- but -- if the CFTC and SEC took that approach, are we in danger of giving people an incentive to stay with the more exotic instruments and not go to more standardized instruments?

MR. WOLKOFF: Well, Michael -- this is Neal Wolkoff -- I actually think it's the opposite. I think people will go where the market demand is and I mean, dealers need customers. They're not trading with each other. So what they want is only relevant as long as their customers want the same thing. I think that the move to exotics would only happen if the regulatory regime became so painful for standardized or more standardized instruments that the incentive is killed to really participate actively. And I see no movement afoot to make that -- to make that happen on the part of the trading -- on the part of the trading community. So, you know, I mean it's an interesting question -- how do you do the research?

I think one way would be to go find some dealers and some customers and look at what their books look like and talk to their traders and I'm sure they'll be open about what, you know, they trade and trade quickly. I think that if everything took hours and was hundreds of pages of -- is the documentation -- to document you would have very few transactions. I tend to think that there are some transactions that you'll see over and over and over again on a set of, you know, books and records and some transactions that you'll see with an infinite amount of fields to accommodate all of the variations of the type of customized negotiation in terms and conditions that the customer probably demanded and the dealer had to figure out how to price accordingly.

MR. PAYTON: And the cart, I think, is just a little bit before the horse because you've got this, you know, entire new regulatory paradigm, right, that's being promoted. The SEFs are developed yet. You haven't seen how these trading structures are going to work. You haven't seen if central order books are going to develop, how liquid they're going to be, how these markets are going to trade and to try to and, you know, define all of this upfront before you see how the markets evolve, you know, to me is a little bit of shooting in the dark.

MR. VOLDSTAD: You should take a look at the TriOptima report on the interest rate swaps. I think they're now reporting about $450 trillion worth of interest rate derivatives and that's just from the G-14. And you'll see -- I don't have the report here with me now I'm afraid -- but I think the aggregate amount of what they call exotic swaps and exotic options are probably 10 trillion out of 450 trillion.

Furthermore, I think within each of the categories, you should try and start off with the most standardized transactions -- plain vanilla swaps -- that, you know, have a spot start, that are not done with upfront payments and so on. And then you gradually get more and more reporting as everybody gets comfortable with the regimen of what it all means and you start product by product then saying okay, this is, A, standardized and, B, here's what the -- what the block trade exemption would be. But the vast, vast majority of stuff could get, A, reported and, B, subject to block limits I think, you know, within a year or 18 months.

MR. SHILTS: Is it more likely that the larger trades that would qualify under some block exemption would be the more standardized?

MR. VOLDSTAD: Absolutely. Absolutely -- I'm sorry.

MR. SONG: Oh, no, yeah, I mean the standardized products as we've discussed is like 98 percent of the volume. And I think, as we discussed earlier, I think the step by step approach is really a sensible one. And then you see what the effects are, see how everybody follows through, and just keep layering in. And any of these rules adapt, they're going to dynamic. They're not going to be fixed in time. And so, as we discussed, as the markets mature and the products mature, the limits will change.

MR. PAYTON: And keep in mind that, you know, more and more of this is going to be cleared, right. The regulators are going to have access to this information irrespective of whether it's immediately price reported to the marketplace. And to a lot of the issues that we talked about occurring in 2008, right, those were issue that, you know, would have seen the light of day had, you know, more of this information been cleared, right, dealing with some of systemic risk issues and disclosed to regulators.

MR. MASTERS: Again, I just want to make a point about the all notion or the information -- what is reported. So in terms of an interest rate swap, there is an notional -- there is a delta equivalent to every single swap and so it's a situation where that has to be reported as a function of the transparency. It's not just the swap. It's got to be the notional equivalent, because otherwise I can't compare apples to apples. And a regulator can't compare apples to apples. That's the whole key is to allow regulators and the general public to understand what the notional equivalent is of any of these trades. I've got to be able see this as a regulator and with regard to commodities, I've got to be able to do that to assign position limits. I've got to be able to do that to literally take someone's aggregate position that they have with swap and compare it to a CME position or proposition they have on with another customer via swap. You know, how do you get all that back down to, you know, the least common denominator? And that's the whole -- I keep bringing that up, but --

MR. PAYTON: And to the extent that -- I'm sorry. To the extent that it's going to be cleared, right, all that stuff is going to come into a clearing house, right. That is going to exactly take it down to that least common denominator, right.

MR. VOLDSTAD: Number one, the regulators will get all the information regardless of what is publicly transmitted. I would argue that something that has a DVL1 of $1,000 is a lot different if that's a one month instrument or a ten year instrument. And you've got to have some other hook to put on your data information than just the DVL1. You've got to know that this is a five year swap against three month LIBOR, five year swap against six month LIBOR, five year swap against three month LIBOR, that it's cleared or uncleared and so on. There's a lot of information. Some of that stuff will move the market for that particular instrument. You've got to be careful. That's all.

MR. MASTERS: And again post-trade is -- it's a different issue. I mean the more I can see post-trade, the better off I am. And I get the point, but I mean -- yeah, I want to see all that. Look, I want to see everything I can see. And not only do I want to see the specific trade, I want to see the aggregate trades as well. I want to see all the stuff as quickly as I can as a market participant. That being said, you know, I've got to be able to see it in a uniform standard and I'm

-- what I'm -- I keep going back to is someone has to say this is the way we're going to do it so that people can follow along and say, okay, we'll report this way.

MR. WOLKOFF: One of the -- it's Neal Wolkoff. But, I mean, one of the benefits of clearing is that at some point -- and that point is the submission to the clearing house, right? There is by necessity a standardization. It may not be as broad a standardization as a benchmark futures contract. It may be narrower. It may be, you know, a certain coupon rate against the certain duration of LIBOR in a certain term with a certain settlement date and that could be fairly narrow, but not narrow enough that it doesn't already contain hundreds, if not thousands, of like contracts. So I think the only thing I would be a little hesitant about if I were a policymaker is to require that any kind of trade secrets or proprietary models be disclosed as part of the transparency or reporting process because eventually you do have a level playing field and a levelizing as Dean mentioned with trades once they become cleared transactions.

MR. SHILTS: Okay, I want to move on to some other questions and topics.

MR. LEAHY: Sure. Touching on something that Chester said earlier, should there be a consistent methodology across markets and contracts or to determine what an appropriate block size is or a large transaction size? Or should a methodology be specified for each particular market?

MS. SPATT: Well, I think -- well, based on my comments before, I certainly think it makes sense to try to use a common methodology to the extent that that's possible. I'm not sure that would necessarily -- I mean, there might be disagreement around the table about the particulars of the methodology that I'd laid out, but suspect that probably most of the panelists would probably agree that there ought to be some sort of overall (inaudible). I'm not sure if I quite understand what alternative you have in mind, unless you have in mind just trying different things for different instruments and seeing what's sort of better. But I'm not sure if I really kind of understand what the alternative would be.

MR. LEAHY: Well, I think what we're thinking here is maybe if there is some sort of algorithm that would be used to determine what an appropriate block size is. You know, if there was an algorithm, could such an algorithm be developed that could be applied across asset classes and contracts? Or do you have to look at each market individually and make assessments and perhaps a different type of analysis that would apply to, you know, this -- asset class one would require or interest rate swaps would require one sort of analysis. Commodity, you know, energy commodity swaps would require a different sort of analysis. Or could the same type of analysis be applied?

MS. SPATT: Weil, I guess my starting place would be to start with the same type of analysis. But, you know, I guess I'd -- you know, I'd want -- you know, I could be informed by the particulars of the context if that common framework was sort of missing something. But, you know, I -- the reason I sort of laid out the framework that I did earlier was that I think a lot of the issues with respect to the nature of size are relatively generic across different types of products. Not to say that the levels -- not to say that the right levels are the same, but the sort of considerations that would go into size, I think, are likely to be pretty common across markets, but obviously very different levels, very different sensitivities and the like.

MR. SHAPIRO: It's Peter Shapiro again. I think it's a question really of standard versus methodology. I think Chester's standard is the right one. Is it market moving? Then you get to the question of what's the methodology to determine if it is market moving? One of the methodologies I threw out would be the idea of measuring transaction size versus market volume. Market volume, however, is something that will be difficult to measure in many of these instruments. To the extent that there is an exchange traded market for the instrument or a comparable instrument, you could measure it by looking at that disclosed market volume on an exchange trade basis. That would be one methodology for doing it.

But I -- at least I would recognize that you're not going to have that methodology for everything and, you know, there may be other methodologies that you'd use that would still share the same standard, which I think Chester lays out correctly.

MR. PAYTON: I think the standard or the idea, right, behind a particular methodology is important, but you have to appreciate the complexity of what it is that you're dealing with all these different products. Even within products at CME Group, we have different block thresholds for U.S. hours, London hours, Asian hours because there's different measures of liquidity during different times of the day and, you know, we -- when we develop our block thresholds, are also trying to balance the issue of complexity to the marketplace. You can't come up with a methodology that's so complex that it's difficult for people to comply and difficult to enforce, right. So there has to be a balance there and I think it's going to be very difficult to, you know, articulate a true one size fits all application of this that cuts across asset classes, time zones.

MR. VOLDSTAD: I would sort of I guess say something similar. I think Chester is talking about an outcome. And how do you get to that outcome? How do you know what the price is -- the volume is that's going to move the market? And I think you've got to look at a variety of different variables -- the size of the trade relative to turnover. You look at the complexity of the transaction, the number of participants, the amount of volatility that the product has. There's a whole -- there will be a whole variety of different variables that you need to put into examining -- and a lot of it is going to be common sense as well. You can use analogy from other markets and I think it's going to be an art. I'd do it one product at a time and do the most liquid products at a time and keep checking them off until you've got 95 percent of the market or whatever your goal would be.

MR. SHILTS: Who would the panelists envision making these determinations? Do they think this is something that should be done by the regulators or exchanges, SEFs, DFMs or whomever?

SPEAKER: You should handle that.

MR. PAYTON: I guess there's a couple of issues from my perspective. One, I think that in the interest of, you know, creating level playing fields, I think that the kinds of standards that we are talking about ought to be minimum standards and I think the regulator can establish those minimum standards and methodologies. But I think that marketplaces ought to be free to determine what's in the best interest of their marketplace -- preserving liquidity, transparency, competitiveness in their markets -- and be able to make that determination.

MR. VOLDSTAD: And I would think that would be the SEFs or the exchange, plus buy-side and sell-side participants.

MR. WOLKOFF: You know I think it's a different issue than it is in futures markets, because, you know, here you have the open access requirements and so you're dealing with a fundability that you don't have in futures. And I think it would be -- I'm unsure -- let me start with that. It's -- Neal Wolkoff being unsure. I'm unsure what the right answer is, but I know that it's a -- it's potentially a bit confusing, possibly maybe even chaotic if different execution venues have different standards. And I know even in futures, you know, it's difficult that there's -- you know, you guys are relatively hands-off, pretty hands-off on block levels and sometimes that has an impact on competitive issues and the like.

So, you know, I'd like to opine later

after thinking about it, but I'm not so sure that this is the same type of transaction where it should be open to everyone as opposed to more like, you know, securities where you have a threshold. It may not make any sense to anyone anymore, but you have a standard. Everybody knows the standard and that's how business is done.

MR. MASTERS: This is Mike Masters. I would just say that someone -- as I mentioned before -- someone has to determine the initial standard and that's in my view the regulator. I mean there has to be some initial standard that people can sort of come -- get their arms around.

And then the other thing I would say with regard to the question is that if you could classify -- you divide out by class of transaction and then you -- again, your goal is to normalize it into its nearest listed counterparty. So if you've got commodities (inaudible), that's pretty easy. Or if you've got interest rate swaps, I mean you're delta equivocating it back to its nearest listed equivalent. Then you've got sort of a quick, you know, comparison and classification scheme where you can compare over-the-counter markets to listed markets and sort of make some sense out of it.

MR. COOK: Let me ask in terms of methodology, it's been argued by some to us that there are certain markets where there's a social size of trade or fairly standardized level of trading that could be used as a part of a building block or measuring -- measurement of a block trade and others where there aren't. I would just ask if, in your experience, there are generalizations that can be drawn and, if so, what product categories do you think would lend themselves most to that type of approach to the issue?

MR. SONG: Well, I'll have a go at this. It's relatively the easiest for the most liquid products say like interest rate swaps because you can get data from banks and brokers as to -- like data mining. How many trades have you done? What is the maturity profile? What is the median ticket size? What ticket size will put you in the top tenth percentile? Those, I think, you would have the relatively the least amount of hurdles to derive those number scientifically.

Where it gets difficult is with the products that might trade, like, once a month, because then you've got the issue with these lumpy trades, right. It could be very illiquid. Well, you may not trade for a few months. You do this gigantic trade and then you do very little trades again and then another gigantic trade. But for -- again for the bulk of the over-the-counter derivative market, for interest rate swaps and plain vanilla options, I believe that that data is relatively readily available.

MR. VOLDSTAD: I would think the same is true for (inaudible) credit default swaps as it is for various indices.

MR. SHILTS: Any other comments on that?

MR. SHAPIRO: This is going back one step and that is the -- there would be a -- in terms of the reporting obligation and like, obviously there needs to be some adjustment for where it's strictly over the counter between -- on a bilateral basis, not going through exchange. So you have to look at that as part of this.

MR. SHILTS: Keep moving on. Go ahead.

MR. GAW: The Dodd-Frank Act requires the Commissions to take into account how public dissemination of transactions will materially affect liquidity. So and not just with respect to block trades, but the whole public dissemination regime in general. So, we welcome your thoughts on that particular issue and in particular what other market structure changes you might see resulting from the introduction of a post-trade dissemination regime.

MR. SHILTS: Anybody want to take a stab at that?

MALE VOICE: You go first, Chester.

MS. SPATT: I'll go first and then everybody will shoot at what I say, but -- I think the introduction of a post-trade dissemination regime would be a major change to the market. And I think a very desirable change. And, you know, I agree with the consensus of the panelists that it does need to be phased in, but I would probably actually counsel against trying to implement too many types of structural changes all at the same time because obviously there are important issues -- as many of the panelists have commented on -- about how market participants can learn to adapt to the new regime. And I did think in the case of TRACE that the approach that was taken both by the NASD and then kind of analogously the approach that the municipal securities rulemaking board took in sort of gradually rolling these initiative out, both made a lot of sense and actually turned out to be quite successful.

You know, part of the reason I also think in terms of -- and I think these issues are very important ones. I think they're important in part for facilitating competition in these markets. So much -- in the past, so much of the attention of the financial regulators has really been focused on the equity markets and to some extent at times looking at kind of the most tiny of trading cost differences. I think it's kind of healthy to be taking kind of more seriously market structure issues in other venues. But I do see the issue of post-trade reporting as a big and important issue.

Now, in some cases, you know, to the extent that one goes to -- to the extent that there's sort of evolution, I mean, you know, may over time there's -- although I don't see this happening so much in the near term. It may make sense over time for there to be more move toward exchange-types -- even more moves toward exchange-types exchange clear -- more use of exchange clearing. I mean, so far a lot of the initiatives seem to be more in terms of clearing, but not necessarily in terms of exchange trading. I mean, that'll, I think, be an important issue down the road. But I see that as sort of down the road and I think -- you know, I think if the public reporting regime works well and maybe there's not even necessarily large benefits to doing that.

MR. SONG: The only thing I'd like to add is it may be worthwhile for this committee also to perhaps assemble a group of major buy-side participants who are the largest users and whose trades are often times block and to get their input and feedback into this process because clearly the post-trader fact is going to have the most dramatic effect on that group of end users.

MR. VOLDSTAD: We've done a fair amount of that and especially with the very large firms. They are concerned about block trading, inhibiting liquidity and letting the freeloaders get able to front run trades and so on. If I go back to your original question, I think if the block trading exemptions, if the post-trade transparency rules are set out carefully with a lot of thought, I think it will benefit public. If, on the other hand, you destroy liquidity because you're too strict, you're going to ruin the markets. So I think this is sort of an approach that most of us are advocating. Take a slow, careful approach. Get a lot of feedback. Put the block trading limits in, see how they're doing. Review them every quarter or whatever it is. And you should have a pretty good product.

MR. MASTERS: I would just say just in terms of buy side and I'm on the buy side -- in terms of transparency, that's a very big consideration with everybody. Obviously, there is a need for people's ability to get things done, but there's also a huge need for transparency that pretty much every institutional investor I talked to agrees with that, you know, we've got to have transparency. We've got to have a level playing field. We can't have people having advantage over other people in terms of trade reporting and so forth. You know, the recent HFT issue of collocation and all that. That's just been one more issue for them to deal with where they feel like they're being taken advantage of. So transparence is really critical.

MR. SONG: If I may just add one -- it's kind of a corollary point to this. Is the development that's going to help transparency significantly is actually a corollary to what we're talking about. It's not necessarily directly here. It's the development of a liquid, widely- participated, electronic trading format in like the swap execution facilities. So that if you go to your screen, you can see 20 prices on the bid side, 20 prices on the offered side for 200 million up. And that means that you will know you can get 4 billion done with a click of a button on one side or the other. That is transparency and liquidity. It's -- to me that is singularly the most powerful thing that delivers price discovery information. I actually don't believe that the reporting of the block trades -- it's important, but I believe this is actually more important because this is what you see, this is where the transactions predominantly occur and this is what affects 99 percent of the participants.

MR. SHILTS: Are you saying the trades wouldn't be done as a block then? They'd be done -- they'd be broken up or?

MR. SONG: Oh, no, no, no. What I'm saying is that if you go into an electronic -- a liquid electronic -- like a swap execution facility that has a lot -- a number of participants. And so, you know, you see a number -- 20 people, 20 market participants on the bid side, 20 participants on the offer side for a large size. Then you got all the information you need right there. That gives -- that levels the playing field immensely for players in the marketplace. Because --

MR. PAYTON: And that's true for liquid products, right? Not every product is going to build that kind of liquidity, right? I mean, we've listed plenty of products that we've put on a central limit order book, right, and the liquidity didn't develop in that particular market using that market mechanism. It's not to see that there's not interest in trading that type of market, but not every type of instrument is necessarily best suited for central limit order book if there isn't that massive liquidity to create that nice deep market that you're talking about.

MR. SONG: No, no. I agree with that.

MS. SPATT: I certainly agree that -- I think of that as sort of a huge form of -- a drift form a pre-trade transparency and obviously that would be -- you know, that's wonderful for the markets where that can arise. You know, it does seem to me at the same time that for markets where that -- it seems to me these issues of price reporting are probably much more significant for markets where you don't have that sort of pre-trade liquidity.

I mean, one of things that is striking -- now it's obviously a different kind of market, but one of the things that is striking in the studies of both municipal bonds and corporate bonds was that the introduction of the TRACE and analogous steps by the municipal securities rulemaking board had the effect of improving price discovery in those markets and in a sense, post-trade -- in those contexts, post-trade reporting was very helpful because it told the customer -- now, keeping in mind that many of the relevant customers were retail customers. But it told them basically where the market -- it gave them kind of an idea where the market was and so it allowed them to kind of negotiate much better with the dealers on the other side of the market.

MR. VOLDSTAD: I'm sorry for talking so much. I think, again, one needs to remember that the derivatives market is an institutional market typically doing very, very large size. Typically, they'll also ask several people for prices. I do think though that say if you're looking at a five-year, five-year forward in the interest rate world, you might not be able to swap -- do that transaction on one of these interdealer broker screens, but you might also might also be able to do this -- there was a fellow here from TradeWeb, where they could probably put that kind of screen with a request for bid and actually get prices for that. So I think that would be a -- and that probably would have a different block size issue to it and so on. But I think as the market mature more and more, as more and more electronic platforms come to be, I think, you know, you're going to get this improvement in transparency.

MR. SHAPIRO: Just to pick up on a point, because one of the things that I often find in discussion on these issues is that when we're thinking about the public end user, too often we're -- too often the example gets given to the institutional investor. So much of what we're really talking about end users here are members -- are public entities, nonfinancial corporations, nonprofit entities like universities that are looking to finance a facility, that are looking to issue a significant amount of debt that they want to put a hedge in place on, that they want to convert from floating to fixed, that they know they're going to borrow five years from now and want to lock in today's interest rate environment or anything of that kind. There's a public good being served here. It's an important public good. If that cost goes up significantly because, as I think Connie put it correctly, because there's information that's being put out there that people can pick off. That, you know -- information is being disseminated that really is principally there benefiting professional traders or hedge funds or proprietary trading desks. It's going to hurt the end user who is trying to hedge and important need and make his costs higher.

The important thing is trying to balance that good. And when I think at least of balancing the public goods that are out there, the public good of the university trying to build a major new facility, of the state of Illinois trying to finance new schools, of a -- of any of those kinds of things, in some ways should outweigh the public good of professional traders wanting to get that information a day earlier. So that if there -- if, when it's a large block -- and these are going to be where the large blocks that we're talking about often will come from -- a major new facility being financed.

Somebody who is going to come into the

markets with something major all at once that giving a little bit of the benefit of it out there -- a one-day delay, a two- day delay or, in the example I used before, as much as a five-day delay if it were truly huge is something where there is public good, which is probably more significant than the other public good of giving professional traders a jump on being able to take advantage of that -- of knowing that position.

MR. SHILTS: Are you mainly talking about interest rate swaps when you talk about the one, five-day delay?

MR. SHAPIRO: The overwhelming portion of our work is in the interest rate swap markets. And that's, frankly, the overwhelming proportion of the market as a whole when you look at it statistically. So I think that's really where we're looking at it. We're looking at hedging -- looking at people wanting to protect themselves from risk or entities that are trying to protect themselves from risk, not ones who are trying to take a view.

MR. VOLDSTAD: But, Peter, you're talking about an illiquid part of the interest rate world -- relatively illiquid (inaudible).

MR. SHAPIRO: When it gets to big enough size, I think we get the liquidity limits on an awful lot.

MR. SHILTS: Is it mainly size or is it the duration or?

MR. SHAPIRO: I think it's size relative to instrument and relative to duration. I think the other professionals would probably agree on that.

MR. MASTERS: I think it's a bit of a slippery slope. I mean, you know, certainly, you know, hedges are important to a marketplace. Speculators are important to the marketplace as well. I think it is a slippery slope where prioritizing one group over the other, there is the chance, perhaps, that with enough transparency, that one of those other participants could potentially provide the liquidity to that same institution that wasn't one of the current participants. And so I think one of the ideas of transparency is to incent other participants in the market.

You know, it's hard to incent people in a market when you're seeing data 5 days, 6 days later and so that theoretical growth of the market, which, you know, 200 million is not a big trade 5 years hence or 2 years hence or whatnot because the size of the market has gone to a billion only really happens if, in fact, there's enough transparency to attract market participants to bring in enough other people where they decide that they want to trade that market and it doesn't -- it's not an exclusive club. So one of the -- and it's hard to measure that in terms of, you know, right away. But one of the long-term benefits of transparency is to incent other participants other banks and swaps dealers and so forth to get in these markets so that it's not a small club. So there's a variety of other people that can be involved.

MR. SHAPIRO: You know, to just continue

the debate a little on that point, though -- remember the end user trading to the dealer is going to result in the dealer trading to the rest of the market. That the dealer is almost never going to host that position as his proprietary position going forward. They don't do that. They trade that out to the rest of the market on a basis that starts instantaneously and continues over the time that they'll need to hedge. So that those other participants should gain that information that will provide the incentive structure that you're talking about.

What's more, we're not talking about closing it off permanently. We're talking about closing it off for a short time as was -- as I believe was envisioned by the drafters of this legislation when they put that block trade exception in there. That was the idea, I believe, behind that -- to recognize the liquidity effect of certain amounts of size and illiquid instruments. You know, at least in our experience, if we see an end user who does something and there is somebody else in the market who says boy, that was a -- I could have done this a whole lot better for you. Somebody will knock on their door -- whether it's two days later or three days later of five days later. It won't make a difference that they didn't know about it in one minute.

MR. MASTERS: I understand. Maybe we're splitting hairs, but just -- and not to belabor the point, but there's no implicit reason why the institution or the hedger can't trade directly with another institutional investor just like they do on the CME or anywhere else. It doesn't matter whether you're trading with a bank or you're trading with anybody else. And the whole idea, I think, of the Dodd-Frank legislation -- or one of the ideas -- is to make that a wider, more transparent market so that people don't have to rely on the banks and balance sheets and the banks don't have to grow to such giant levels because they're the only players in town and so that other people can do those transactions. And the only way that's going to happen is for there to be a certain amount of transparency.

And while I may want to do the trade a week later or whatever, you know, or I can do the trade after the dealer has taken his profit out of the trade as a middle man, I would rather do it directly as a customer than after the dealer has taken out his bid offer and I bet I can narrow bid offers for everybody down the road.

MR. VOLDSTAD: I think we're again talking about something that's very unusual for I think there to be a requirement for a multi-day delay in reporting transaction. I -- there may be a few situations in the municipal swap land. I was around the derivative market for a long, long time and don't know of that many unusual trades that would be damaged by having a weeks -- well, by having to have a weeks delay. There may be some transactions -- unusual indices and commodities and so on -- but I think the vast, vast majority of stuff could easily get reported on in some fashion the same day. The vast, vast majority of interest rate products could be reported on very, very quickly.

I think the transactions that Peter is talking about you couldn't do because they're not clearable and they're going to be years and years before they're clearable. And an awful lot of the exotic stuff -- the stuff that caused the crisis -- is never going to be clearable and you've got to recognize that. You can't figure out what the value of an NRCDO is -- CDL or CDOs. These things just are not -- you know, you can't price it ahead of time.

MR. MASTERS: Which gives some social aspect to their benefit in the first place I imagine. I mean, the need to do them in the first place from the standpoint of being on a bank's balance sheet or whatnot.

MR. LEAHY: We're plum out of questions.

MR. SHILTS: Does anybody have any -- since we have a few more minutes, anybody have any other comments they want to make or we can end this one a little early. Go ahead.

MR. SHAPIRO: Just one quick one, and again on my colloquy back and forth with Mike and that is that if you looked the typical transactions that we see with end users, whether they're universities or hospitals or city governments. They typically are ones that have extensive amortization, specific matching to dead issuance, all sorts of tailoring that make them particularly ill-suited to trading on a one-to-one basis with a, you know, with a hedge fund or with a proprietary trader. It might occasionally happen. I would welcome it and I think that one of the things that makes sense is that as transparency grows, maybe you'll start to see that. But it would be disingenuous to sort of leave it hanging to think that it would be likely for a hedge fund to, you know, approach the Fayetteville, North Carolina, Public Works Commission and say we're going to purchase something that will exactly match your new debt issuance for your new water and sewer plant.

MR. SHILTS: Okay with that.

MR. VOLDSTAD: I'll say one thing if I may. Just I think my big push on this is that one has to realize what the market is about. It's about sophisticated large institutions by and large much, much smaller in terms of participants than you'd have in an exchange-traded marketplace. Typically, we're not dealing with widgets, especially in things like credit default swaps. You'll have at least 40 different contracts for every single named corporate. And, indeed, you could multiply that by the number of coupons that the markets are trading and whether they're having restructuring provisions or not.

On the other hand, I think there are a lot of very, very liquid transactions -- marketplaces like in the interest rate world. They'll be much less liquid, much less continuous than the futures world, but something where I think you can get some very good social benefits out of swap execution facilities and out of the post-trade transparency.

MR. SHILTS: All right. Well, thank you

very much. And thanks to all the panelists and it was a very good discussion today and I guess this will end the roundtable. Tomorrow we have the SEF roundtable at the SEC.

(Whereupon, the PROCEEDINGS were adjourned.)

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CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the witness whose testimony appears in the foregoing hearing was duly sworn by me; that the testimony of said witness was taken by me and thereafter reduced to print under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither 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.

/s/Carleton J. Anderson, III

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