

Discussion on Bloomberg's interest in registering as a Swaps Execution Facility

September 9th, 2010

EXECUTIVE SUMMARY

- The growth of the usage of derivatives in the financial markets was highlighted by the Financial Crisis of 2008 and 2009. The recently enacted "Dodd-Frank Wall Street Reform and Consumer Protection Act" mandates better automation and transparency for the markets.
- There will be an ongoing need in the market for the ability to trade derivatives to manage specific cash flow needs, in particular for debt issuance. Due to the manner in which debt is restructured on an ongoing basis, there is a continuous need for a mechanism to competitively restructure the corresponding swaps.
- Many of our customers believe that the trading protocols in place today need to exist in the future to respond to their ongoing cash flow needs.
- Bloomberg is the largest independent player in the market in terms of electronic trading and processing of OTC derivatives. We have an extensive suite of capabilities, connectivity, and customers already on board.
- Bloomberg is uniquely positioned to support participants and regulators due to our size and independence. In some markets, we are the only unbiased independent buy-side sell-side player with most entities being owned by the sell-side. We can be an intermediary with the community of buy-side and sell-side swap dealers.
- Bloomberg has both the infrastructure, the expertise, and the desire to register as a Swaps Execution Facility (SEF) under the financial reform legislation.

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- Requirements for swap exchange facility
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- Capabilities: detailed views
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DODD-FRANK AND CFTC DERIVATIVES REGULATORY GOALS

Risk Management

- Prevent market manipulation and price distortion
- Monitor terms and conditions of swaps trade orders to ensure their financial integrity
- Mandate that all swaps subject to mandatory clearing be traded on a SEF
- Enforce trading and trade processing rules that will deter abuse

Price Transparency

- Establish a regulatory framework for position limits on SEFs, and for aggregating those positions across exchanges and markets
- Limit setting for contracts that perform a significant price discovery function

Trade Reporting & Repository

- Obtain relevant and timely information from traders as requested by the CFTC
- Comply with recordkeeping and reporting requirements

MECHANISMS TO REACH THESE OBJECTIVES INCLUDE SEVERAL MODIFICATIONS TO THE MARKET

RESPONSIBILITIES OF A SEF

Risk Management

- Monitor swap trading and trade processing
- Avoid anticompetitive trade environment and conflicts of interest
- Maintain the adequate financial resources to run the SEF
- Uphold system safeguards and emergency authority
- Ensure proper governance through a Chief Compliance Officer

Price Transparency

- Verify the financial integrity of transactions
- Enforce position limits regulations
- Provide full transaction accountability

Trade Reporting & Repository

- Obtain all necessary regulatory information
- Maintain comprehensive record keeping
- Have the ability for timely publication of trading information
- Provide Regulatory/ Public Reporting
- Provide reporting to Participants

CHANGES TO THE SWAP MARKET

- Currently there is no industry wide imposed trading protocol, or mandatory multi-dealer platforms
- The buy side does not want to limit the number of places they can transact, regardless of execution platform ownership they want choice and competition to ensure fair pricing
- It is also important to have several venues in case one of them shuts down
- The market does not have counterparty transparency: no information is publically available on who the parties are in a swap trade
- No visibility into positions within same exchange or across markets
- All major platform providers currently maintain an audit trail of all trade transactions
- New regulations will create consistency of reporting and disclosure across the industry

AS AN INDEPENDENT PROVIDER OF TRANSPARENCY AND LIQUIDITY IN THE SWAPS MARKET, WE SHARE SIMILAR OBJECTIVES

TRANSPARENCY

Our trading platforms bring comprehensive real time price disclosure between buyers and sellers, enabling fair pricing

SAFETY

We have live automatic monitoring, control of all access points to the platform (e-trading and voice), connectivity to central clearing, and a complete audit trail of all activities within our platforms

RELIABILITY

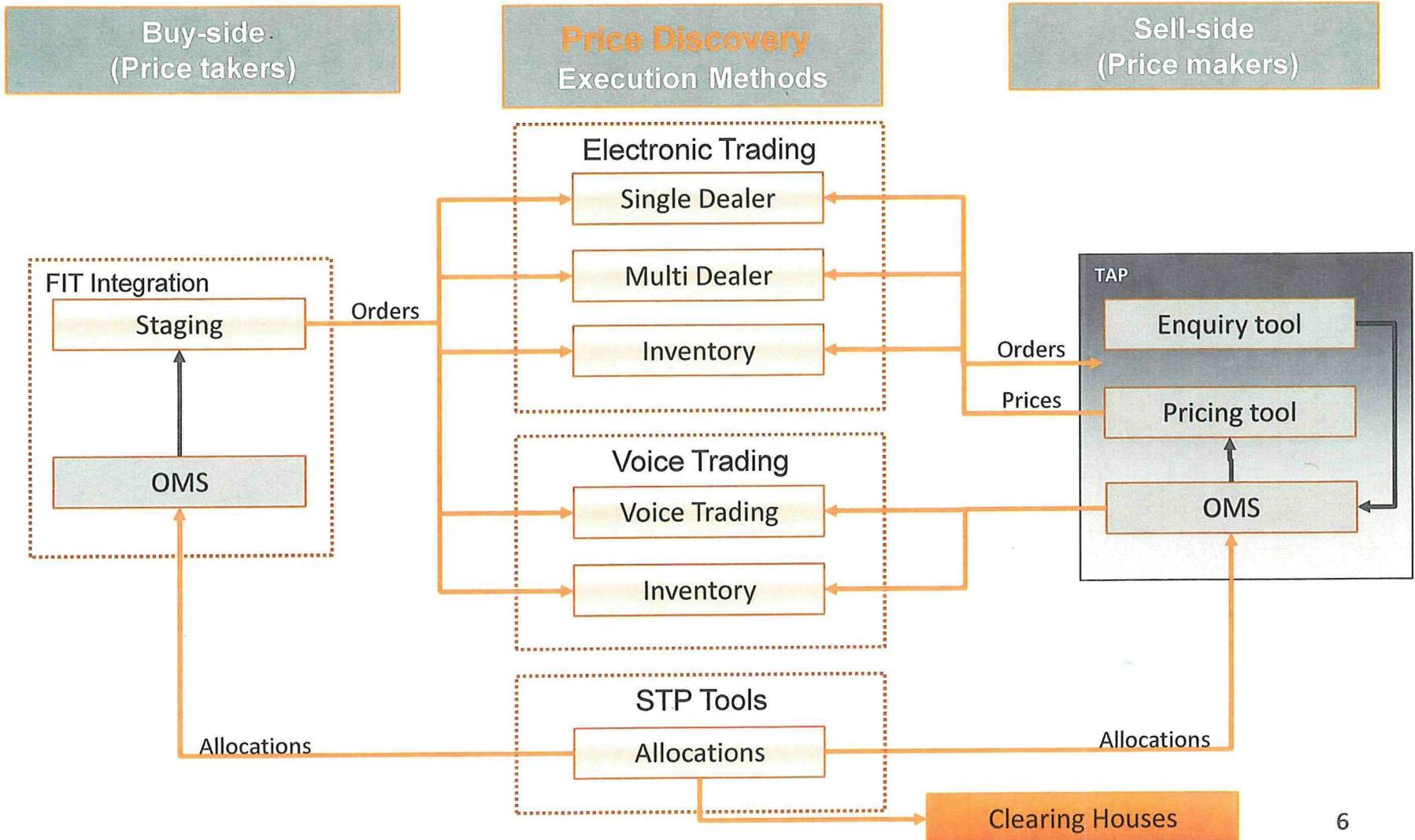
We maintain a highly available, robust and resilient technology infrastructure with the capacity and flexibility to support large trade volumes including electronic trading

OPENNESS

We are integrated with all major dealers, providing a central point of connectivity to both buy and sell sides

OUR CAPABILITIES EXTEND ACROSS FUNCTIONS AND SERVE ALL PARTICIPANTS

MARKET FLOWS



EXISTING CAPABILITIES ON BLOOMBERG'S SWAP PLATFORM

Bloomberg

Transparent
Transaction
Protocol

- Bloomberg provides an open and transparent protocol to trade swaps
 - Competitive multi-dealer trading platform with ability to view depth of market (IRS)
 - Single-dealer trading platform with price benchmark reference composite with a recognized protocol (CDS and IRS)
 - Voice trading platform with integration with straight-through-processing capabilities (OTC Equity derivatives, CDS, and IRS)
 - Fully auditable trail for both the executing and non-executing parties
- Post-trade reconciliation platform that prompts the user if the trade is going to be cleared
 - Users can monitor live the entire clearing cycle for their products as the systems are speaking directly to exchanges (CMEs, ICE, etc) and show cleared trades back to the sell desks in addition to the buy side
 - Solution for unwinding trades for both voice and electronic trading
- Provides access to clearing venues and legal confirmation platforms: connectivity to central clearing facilities, as well as to legal execution facilities for non-cleared transactions
 - Bloomberg's advantage is to give the user the choice of clearing houses (market norm is to impose the preferred clearing house)
- Each step in the transaction protocol is recorded, including product selection, dealer communication over instant messaging or email (Bloomberg has full compliance for email/messaging storage), and agreed pricing.
- Bloomberg is unique in offering the same rigor of protocol for voice trades with its voice trading platform VCON that captures voice trades and direct them seamlessly into a STP environment.
- There are no barriers to entry into the Bloomberg platform: it is open to any party offering liquidity and taking liquidity
- The trading capability is available to all 285,000 Bloomberg terminal users, with 16,000 active fixed income users trading on the system globally

Open to all
Market Players

EXISTING CAPABILITIES ON BLOOMBERG'S SWAP PLATFORM

Bloomberg

Capacity to record, report and analyze all trade data

- Bloomberg has a unique blotter and reporting suite with a complete audit trail of all order and trade activity performed through its platform
 - Includes records for both electronic and voice trading and data is non-alterable
 - Full information on pre-trade, trade, and post-trade actions including all associated time stamps (e.g.: time when a price was requested, how long it took to get receive price quote)
 - Ability to store other market data (e.g. benchmark price and competing quotes) at the time of the trade
 - Secure system with only appropriate parties having access to the information
- Data is easy to use and queries can be run to analyze the data
 - A full suite of compliance and risk management tools that can be leveraged to monitor position limits
- The System is highly flexible and a direct trade data feed could be established from the blotter to the CFTC
 - Bloomberg can offer multiple levels of data transparency, we have the capacity to make trade information both public and confidential, as need be
- Advanced voice trading platform VCON that takes manual trade and digitalizes them in real time

Provide pre-trade price transparency

- Bloomberg has the capability to provide pricing request information in real time, crucial to the market to access the best liquidity and ensure full price transparency
 - Competitive price discovery process where users can send price inquiry to up to 3 dealers, and we have the tools to further customize the price discovery process
 - Users are given all the tools to choose who can trade with them, as well as parameters within which the trade can be done (e.g. 20 seconds to accept price)

EXISTING CAPABILITIES ON BLOOMBERG'S SWAP PLATFORM

Prevent Abuse

- Bloomberg controls the access to the trading platform in real time, giving complete instrument control and security for both side of participants
 - Access to the platform can be blocked instantly
 - Client access and products can be removed automatically if necessary
- Access to clearing houses is allowed or denied through an automatic product eligibility verification
- System is fully customizable and specific criteria can be defined to authorize trading
 - Pattern that Bloomberg looks out for: multiple price requests without executing
 - Ability to limit amounts on trades according to specific position limitations

Governance & Compliance

- Bloomberg LP has a Chief Compliance Officer and a worldwide compliance staff dedicated to understanding and enforcing regulatory rules that effect all of our products.
- Bloomberg subsidiaries are currently registered as brokers in eight countries around the world (including the SEC and CFTC in the US as Bloomberg Tradebook LLC) and sell equities, futures, options and foreign exchange contracts in these and other markets. These subsidiaries perform real time monitoring and reporting of trades, periodic regulatory examinations, and yearly self assessment reports, among other regulatory obligations.
- Bloomberg has the integrity and the experience to assume SEF regulatory responsibilities

Technology Capacity & Security

- Bloomberg's systems and process can be scaled for higher volume
- Bloomberg has a comprehensive security, business continuity, and disaster recovery processes
- We have the technology and offer the transparency to be a facilitator to provide information and implement the rules that the CFTC establishes, as all buy-side and sell-side participants cannot implement all complex regulatory requirements by themselves (e.g. calculation of aggregate position limit)

BLOOMBERG CONNECTS A LARGE COMMUNITY OF BUYSIDE AND SELLSIDE **Bloomberg**

Independence

- We are a major independent player in the swap market with all the major dealers, some of which are fully integrated with our platform via the Bloomberg API
 - Over 600 firms use us for IRS and CDS trading

Central Connectivity

- We provide a central point of connectivity to both buy and sell side, offering connectivity to multiple clearing houses, legal execution facilities, and DCMs
 - Our voice trading capture system has over ~400 customers using it per day

Market Coverage

- We cover all spectrum of liquidity market types from illiquid CDSs to highly liquid exchange markets. We have the tools to support and monitor transactions in either
 - There are currently over 16,000 Fixed Income users with Bloomberg

Open Dialog

- We have a well established culture of dialog with the buy side and sell side promoting continuous innovation and process improvements through direct feedback forms.
- Due to Bloomberg's unique independent status, we can be an intermediary with the market community of buy side and sell side swap dealers without bias for either side

OVERVIEW OF OUR ORGANIZATION

- Bloomberg's core business is the delivery of analytics and data on approximately 5 million securities as well as information and news on almost every publically traded company through the Bloomberg Professional Service. The Service provides comprehensive coverage on all major asset classes and currencies, including all varieties of mortgage-related securities. Approximately 285,000 professionals in the Financial Community across 150 countries are connected via Bloomberg's proprietary network.
- Virtually all major Central Banks, Investment Institutions, Commercial Banks, Government Agencies and Money Managers with a regional or global presence are clients of Bloomberg giving us extraordinary and unparalleled global reach of all relevant financial institutions that might be involved in swap trading.
- Overall, 10,100 employees support Bloomberg's business from 10 global offices including New York, San Francisco, London, Sao Paulo, Singapore, Sydney, and Tokyo. In addition, Bloomberg has information and data gathering presence in 125 bureaus located throughout North and South America, Europe, Africa, and Asia Pacific.
- Bloomberg offers real-time, 24-hr technical and product support, as well as dedicated account managers to all of its customers.

OVERVIEW OF OUR ORGANIZATION

OPERATIONAL CAPACITY

Our Technology platform gives us an immediate access to large user community:

- We are already on the desktop for 285,000 financial services professionals globally, with particular strength in fixed income and OTC products.
- We have a dedicated trading system division that already provides a fully functional order management system to more than 1000 financial institutions world-wide, across all major asset classes and market segments.
- This system is supported by market standard analytics (risk and price discovery), news and data
- We have been able to bring new major, tier 1 financial institutions on-line with this system within days.
- We have connectivity to every major financial institutions and every major exchange. We have more than 1000 dealer connections for electronic trading.

Bloomberg maintains a highly available, robust and resilient technology infrastructure :

- We maintain contractual service level agreements against outages and we universally meet these service commitments
- We have two redundant Class A data centers that we own, running in hot-hot configuration to maximize availability
- We have 6400 servers and 3 petabytes of storage
- We perform all of our technology development, management, operations and support internally, with a staff of 4,000 technology professionals
- We perform disaster recovery testing between our data centers on a weekly basis
- We have a great organizational agility roll out implementations in very short timeframes
- We have a global, follow-the-sun support staff dedicated to trading systems
- Our OMS has received industry-standard SysTrust certification for its security, availability and processing integrity

Given the services we currently provide, Bloomberg has the capacity and flexibility to support increased trade volumes:

- We are the world's largest trading system and we maintain the world's largest private network, currently reaching 60,000 sites
- We have an easily-scalable architecture, and we can add new capacity on demand

OVERVIEW OF OUR ORGANIZATION

PUBLIC TRANSPARENCY

- Bloomberg maintains a publicly available website that currently displays millions of components of market data on a delayed basis. More than 6+ million unique users per month view Bloomberg's website. This translates to about 400 million page views per month.

CONFLICTS OF INTEREST

- Bloomberg LP is a Delaware, USA based Limited Partnership that provides market data, analytics, and electronic trading, order routing and trade management capabilities to more than 300,000 users worldwide. Because Bloomberg LP is not a "Financial Institution", it is uniquely positioned in the marketplace as a global, independent, reliable provider of exactly the types of information and support services required by the CFTC, without the potential self interest and conflicts that would potentially be inherent in any "Financial Institution".
- Bloomberg LP does own and operate an entirely electronic agency brokerage firm – Bloomberg Tradebook LLC – but Bloomberg LP does not provide custodial or investment advisory functions, and does not hold customer funds or trade as principal.

APPENDIX

EXISTING TRADING OPTIONS ON BLOOMBERG

	Multi-Dealer	Single-Dealer	Attributed	Unsolicited	Voice
Name	BBTI<GO>	IFIT<GO>	ALLQ<GO>	Multiple	VCON<GO>
Overview	End-users request a price from 3 participating dealers	End-users see and trade on a live streaming dealer price on a dealers dedicated page.	End-Users can compare & trade live streaming prices from multiple dealers	End-users can launch a price request on various graphing, charting or data pages	A dealer can recap a trade done over the phone by sending a Bloomberg ticket
Protocol	<ul style="list-style-type: none"> Request-For-Quote (RFQ) User will select 3 dealers in swaps or 5 in cash Dealer specify time their price is 'firm' 	<ul style="list-style-type: none"> Dealers stream live prices to their dedicated page An end user can visit multiple dealer pages and select the level that best suits 	<ul style="list-style-type: none"> An end user selects a particular bond Bloomberg compares all the executable prices that are available for that bond 	<ul style="list-style-type: none"> An end user visits a general market information page An RFQ ticket is launched on a particular security on page 	<ul style="list-style-type: none"> Not an electronic trade Digitizes the information on a phone trade User can confirm/affirm the trade
Products	Cash and Derivatives	Cash and Derivatives	Cash Bonds Only	Cash Bonds Only	Cash and Derivatives
Dealers	Dealers: 27 in cash, 13 in Derivatives	Dealers: 100+ in cash, 22 in Derivatives	Dealers: 100+ in cash, 0 in derivatives	Dealers: 100+ in cash, 0 in derivatives	Dealers: All Dealers in cash or derivatives
Usage	<ul style="list-style-type: none"> Heavy usage in cash (1000+ users) Low usage in derivatives (30 users) 	<ul style="list-style-type: none"> Low usage in cash Heavy usage in derivatives (300 users) 	<ul style="list-style-type: none"> Heavy usage in cash (3600 users) Not available for derivatives 	<ul style="list-style-type: none"> Frequent Usage 	<ul style="list-style-type: none"> Heavy Usage in cash (11,000 users) Heavy usage in derivatives (300 users)

ADHERENCE TO SEF REGULATION PRINCIPALS

CORE PRINCIPALS OF A SEF	BLOOMBERG CAPABILITIES
I. Compliance with core principals	✓ Bloomberg can and will adhere to all core principals
II. Compliance with rules	✓ Bloomberg can and will adhere to all rules
III. Swaps not readily susceptible to manipulation	✓ Bloomberg will ensure that trading occurs only with Swaps not readily susceptible to manipulation
IV. Monitor of swap trading and trade processing	✓ Bloomberg has complete capabilities to monitor trading and trade processing for IRS, CDS and OTC Equity derivatives
V. Ability to obtain all necessary regulatory information	✓ Bloomberg has a complete trade log and extensive data analytics that can provide all data requested
VI. Enforce position limits or Accountability	✓ Bloomberg has the ability to provide position and risk analytics on its trade blotter
VII. Ensure the financial integrity of transactions	✓ Bloomberg can ensure the financial integrity of all trades going through its systems
VIII. Emergency authority	✓ Bloomberg has all the systems stops in place to adhere to enforce emergency authority
IX. Have the ability for timely publication of trading information	✓ Bloomberg has a complete audit trail and extensive data feed capabilities
X. Recordkeeping and reporting	✓ Bloomberg has extensive recordkeeping and reporting capabilities
XI. Antitrust considerations: Avoid anticompetitive trade environment	✓ Bloomberg is an independent entity, unbiased to the sell or buy side
XII. Avoid conflicts of Interest	✓ As an unbiased party, Bloomberg strive to maintain an environment without conflicts of interest
XIII. Financial resources to run the SEF	✓ Bloomberg has the adequate financial resources to run a SEF
XIV Uphold system safeguards	✓ Bloomberg has emergency and recovery protocols for all systems
XV. Governance through a Chief Compliance Officer	✓ Bloomberg has a dedicated Chief Compliance Officer leading an internal compliance team

Title VII Rulemaking – CFTC/Bloomberg Meeting

Bloomberg is uniquely positioned to act as a Swap Execution Facility (“SEF”). Bloomberg is currently the largest independent platform for electronic trading and processing of OTC derivatives. Bloomberg’s position in the market, its independence and its infrastructure are compelling factors positioning the company to be a key player in the newly regulated swaps market in a manner that will enhance the CFTC’s efforts to bring new competition, transparency and accountability to the U.S. over-the-counter derivatives market.

Key recommendations and considerations:

I. Centralized Utility for Certain “SRO” Core Principles

Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”) mandates that SEFs comply with certain “core principles” designed to bring greater oversight and structure to the swaps market. Bloomberg is in a position to satisfy the SEF core principles with the possible exceptions noted below. However, public policy would be better served if certain SEF core principles relating to self-regulatory organization functions could be satisfied through the use of a centralized, independent utility. Bloomberg supports extending the role the National Futures Association (“NFA”) has played in futures market regulation to certain SEF swap activities reflected in the relevant core principles as follows

- Compliance with Rules: Enforcement of certain SEF trading rules, such as block order rules, to deter trading abuses (Section 5h(2))
- Monitoring of Trading and Trade Processing: Monitoring SEF trading to prevent manipulation and price distortions (Section 5h(4))
- Ability to Obtain Information: Obtaining information from the SEF and/or participants to provide to the CFTC upon request or for information-sharing (Section 5h(5))
- Position Limits and Accountability: Monitoring participant swap positions for compliance with the limits set by the CFTC (Section 5h(6))

As done in the futures exchange environment, the NFA should have direct authority with regard to those specific core principle functions over SEF participants as a condition of their use of an SEF. We believe this structure provides the desirable level of independent regulatory oversight necessary for objective and consistent interpretation and enforcement of the Act’s requirements across the SEF sector (including swap platforms operated by DCMs).

II. Oversight for Remaining Core Principles

Aside from the “SRO” core principles handled by NFA, Bloomberg proposes that each SEF should retain primary responsibility the remaining core principles: Registration; Swaps Not Readily Susceptible to Manipulation; Financial Integrity; Emergency Authority; Timely Publication of Trading Information; Recordkeeping and Reporting; Antitrust Considerations; Conflict of Interests; Financial Resources; Systems Safeguards and Designation of Chief Compliance Officer. In that regard, several clarifications would be useful:

- Would the CFTC review and determine which standardized contracts would not be susceptible to manipulation?
- What expectations does the CFTC have regarding rules designed to ensure “the financial integrity of swaps” and the role an SEF would play in ensuring such integrity?
- How would the CFTC envision an SEF establishing the authority to “liquidate or transfer” a participant’s open position?

III. Uniformity/Consistency in Standards

While CFTC should be open to innovation and healthy competition of business models between and among SEFs, it is critical that the CFTC review and assess SEF proposed rules with the goal of ensuring an appropriate degree of uniformity of minimum standards across the SEF sector to insure a “fair playing field” and to avoid regulatory arbitrage inconsistent with the purposes of the Act. It is also imperative that both the CFTC and the SEC coordinate effectively to the extent possible with regard to their respective and joint oversight for different swap and security based swap products to facilitate regulatory consistency across instruments and markets.

IV. Extraterritoriality and Non-US SEF Participants:

The provisions of the Act relating to CFTC regulated swaps do not relate to “activities outside the United States” unless those activities have a “direct and significant connection with activities in, or effect, on US commerce” or contravene the CFTC’s rules and regulations designed to prevent evasion of the Act. See Section 722(d).

- What would constitute an activity “outside the US”, i.e., is it dependent on where the swaps are executed/cleared, where the participants are located, or some other variables?
- What constitutes “direct and significant” activities with regards to swap executions on a SEF by a non-US participant?