WASHINGTON, D.C.
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PUBLIC ROUNDTABLE:
THE MADE AVAILABLE TO TRADE PROCESS
PARTICIPANTS:

Welcome and Opening Remarks:

NANCY MARKOWITZ
Deputy Director, Division of Market Oversight
U.S. Commodity Futures Trading Commission

Panel 1 - Mandatory Exchange Trading Requirements in Various Jurisdictions:

Moderator:

ROGER SMITH
Special Counsel, Division of Market Oversight
U.S. Commodity Futures Trading Commission

Panelists:

KAZUNARI MOCHIZUKI
Director for International Financial Markets (Settlements) Japan Financial Services Agency

NHAN NGUYEN
Special Counsel, Division of Market Oversight
U.S. Commodity Futures Trading Commission

EDWIN SCHOOLING LATTER
Head of Markets Infrastructure and Policy
U.K. Financial Conduct Authority

HEATHER SEIDEL
Chief Counsel, Division of Trading and Markets
U.S. Securities and Exchange Commission

Panel 2 - Assessing MAT: Academic Perspectives on, and Data-Based Assessment of MAT:

Moderator:

SAYEE SRINIVASAN
Chief Economist
U.S. Commodity Futures Trading Commission
PARTICIPANTS (CONT'D):

Panelists:

DR. DARRELL DUFFIE  
Dean Witter Distinguished Professor of Finance  
Graduate School of Business  
Stanford University

DR. JOHN HULL  
Maple Financial  
Professor of Derivatives and Risk Management  
Joseph L. Rotman School of Management  
University of Toronto

AMIR KHWAJA  
Chief Executive Officer  
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KEVIN McPARTLAND  
Principal, Greenwich Associates

Panel 3 - Industry Assessment of the MAT Process:

Moderator:

ROGER SMITH  
Special Counsel, Division of Market Oversight  
U.S. Commodity Futures Trading Commission

Panelists:

TOM BENISON  
Managing Director, Global Credit Trading and Syndication, J.P. Morgan

STEPHEN BERGER  
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MS. MARKOWITZ: Hello, good morning. I think we're ready to start; if you could take your seats. I'm Nancy Markowitz; I'm the Deputy Director of the Division of Market Oversight. And next to me is Vince McGonagle, the Director. I'd like to welcome all participants on the panels, the attendees, and the Commissioners that are here to the Roundtable on Made Available for Trade. I specifically want thank the panelists for their time, and we look forward to a robust and probative discussion on the three panels that we have today.

With that I'd like to turn this over to my colleagues, Roger Smith and Nhan Nguyen, who have been those involved in setting up this Roundtable.

MR. SMITH: Thank you, Nancy, for your kind introduction. Before we begin this meeting I've been asked to note for the record and briefly remind the Commissioners that this is an Agency Roundtable and not a Sunshine Act meeting.
Therefore it is important that Commissioners refrain from deliberating between or amongst themselves on the topics or issues discussed in today's meeting because such deliberations would result in a Sunshine Act violation and also result in potential APA issues. However, as in the past, Commissioners are free to ask questions of the Roundtable participants and also request clarifications on the points made today. Thank you.

All right. As we begin the Roundtable I want to thank everyone for attending our Roundtable. The first panel will focus on the approaches to mandatory exchange trading that have been taken across various jurisdictions. It will feature presentations by a group of global financial regulators including the CFTC. At this time I'd like to go around the room and have each of the panelists present themselves and who they represent.

MR. SRINIVASAN: Sayee Srinivasan, and I'm the Chief Economist.
MR. NGUYEN: Nhan Nguyen, Division of Market Oversight, the CFTC.

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

MR. MCGONAGLE: Good morning, everyone, and thank you for coming; Vince McGonagle for Division of Market Oversight.

MS. MARKOWITZ: Nancy Markowitz, Division of Market Oversight.

MR. VAN WAGNER: David Van Wagner, Division of Market Oversight.

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

MR. SCHOOLING LATTER: Edwin Schooling Latter, Head of Markets Policy Department in the UK Financial Conduct Authority.

MR. MOCHIZUKI: Good morning, Kazunari Mochizuki Japan FSA.

MR. SMITH: Thank you. To quickly review the format we'll have each of the panelists present their jurisdiction's approach to mandatory
exchange trading, and DMO staff may have a few
clarifying questions after the presentations. To
begin with I will turn to my colleague, Nhan
Nguyen.

MR. NGUYEN: Great, thanks, Roger. Good
morning, everyone. On behalf of the Division of
Market Oversight I'd like to provide a brief
overview of the made available to trade or
commonly referred to as the MAT process, and the
Commission's implementation of the trade execution
requirement to this date.

So to start, the trade execution
requirement mandates that swaps subject to the
clearing requirement be executed on a swap
execution facility, a SEF, or designated contract
market, a DCM, unless no SEF or DCM makes those
swaps available to trade or generally where the
transaction would be subject to a clearing
exception. The MAT process, which has been set
forth in the Commission's regulations, allows a
SEF or DCM to submit to the Commission an initial
determination that a swap is available to trade
and therefore should be subject to the requirement. To submit a determination the SEF or DCM must first list or offer the swap for trading. Determinations can be submitted to the Commission through one of two processes, a self-certification process or a rule approval process. Each determination or submission must consider one or more of the following factors with respect to the swap: One, whether there are ready and willing buyers and sellers, two, the frequency or size of transactions, three, trading volume, four, number and types of market participants, five, the bid ask spread, and finally, the usual number of resting firm or indicative bids and offers.

In terms of the standard or review of a submission, a MAT determination would be denied if it is deemed inconsistent with the Commodity Exchange Act or the Commission's regulations, and such a finding would generally depend upon the SEF or DCM's analysis, the determination of factors. However, I would note that a determination could also be deemed inconsistent if it doesn't consider
at least one or more of the required factors, the
swap is not subject to mandatory clearing, or the
swap isn't listed by the SEF or DCM that has made
the determination. The length of the review
depends on the manner in which the determination
was submitted. So self-certifications are subject
to an initial review of up to 10 business days
with up to an additional 90 days if a stay is
issued. Rule approval findings are subject to a
45 day review period with an additional 45 days if
a stay is issued.

As I'll touch on further in a moment,
filings are subject to a public comment period if
the stay is issued. Now a stay may be imposed if,
among other things, their submissions raise novel
or complex issues that require additional time to
review. But once a swap is deemed certified or
approved, then the swap is made available to trade.
SEFs that list or offer that swap once the swap
has been made available to trade and subject to
the trade execution requirement, they must do so
pursuant to required methods of execution. DCMs
that list or offer the swap must do it so in a manner consistent with DCM Core Principle Nine. Market participants must comply with the trade execution requirement on the later of the applicable compliance deadline for the clearing mandate for the particular swap, or 30 days after the swap is deemed certified or approved as available to trade. And once the swap is MAT it remains subject to the trade execution requirement until it is no longer listed or offered for trading by any SEF or DCM.

So to touch upon briefly the implementation of the trade execution requirement, in the fall of 2013 the Commission received determinations from five SEFs for certain interest rate swaps and certain credit default swaps through the self-certification process. Now given that these were the first determinations received by the Commission, the filings were put on a 90 day stay and subjected to a 30 day public comment period, during which time the Commission received multiple comment letters that addressed the
substance of each of the filings. Ultimately, the Division of Market Oversight determined that the five MAT filings appropriately addressed the factors and therefore recommended that the Commission allow them to self-certify. I would note as an aside that despite only needing to address at least one of the factors, each of the filings addressed more than one of the factors and in some cases all of them to support the determination submitted. Accordingly, upon self-certification the trade execution requirement went into effect during various stages during the first half of 2014.

So the trade execution requirement currently applies to certain fixed to floating interest rate swaps and several benchmark tenors and certain credit default swaps based on a limited number of indices as you can see in the diagram behind us. And as we'll get into in later panels, these swaps are generally considered to be relatively standard and liquid.

Since the effective date the Commission
has monitored how the requirements have been implemented and has addressed questions and concerns, which is something that we continue to do. And where appropriate the Division has provided time limited no action relief with respect to MAT-ed swaps for certain types of transactions, such as package transactions, and transactions executed between affiliated counterparties.

MR. SMITH: Thank you, Nhan. Heather?

MS. SEIDEL: Thank you. And before I began I have to note, as usual, as a matter of policy the SEC disclaims responsibility for the private statements of SEC employees. So any views that I express today are my own views and do not necessarily reflect the views of the SEC, the Commissioners, or my colleagues on the staff at the SEC.

So first I just wanted to note that the changes to the Exchange Act from the Dodd-Frank Act mirror the changes to the CEA in this regard. So we have the similar statutory requirements that
require transactions in security based swaps that
are subject to the mandatory clearing requirement
to be executed on an exchange or a security based
swap execution facility unless no exchange or SEF
makes the swap available to trade or unless the
swap is covered by the end user exception to the
clearing requirement. So the same statutory
structure exists for security based swaps as for
swaps.

In proposing its SEF rules in 2011, the
SEC noted that the determination by one or more
SEF or an exchange that a security based swap is
available to trade on the SEF or exchange would
impact the trading of that security based swap, as
it would no longer be able to trade in the over
the counter markets. And in this context, the
Commission discussed in the proposing release the
potential conflicts of interest that could arise
with respect to when security based swaps are or
are not made available to trade. For instance it
noted that a SEF was permitted to determine that a
swap was made available as a trade. Any one SEF
could essentially prevent that security based swap
from being traded in the over the counter market
if it said that it was made available to trade on
its markets. Conversely, the Commission also
noted that a group of market participants could
have competitive incentives to limit the number of
security based swaps that would be designated as
made available to trade in order to keep those
swaps trading in the over the counter market.

And so because of these concerns, the SEC
proposed that the made available to trade
determination should be made pursuant to objective
measures established by the Commission rather than
by one or more SEFs or exchanges. And the
Commission did not propose actual objective
standards in its release, but it did note that the
objective measures could provide that the swap
that is subject to mandatory clearing would be
considered made available to trade unless the swap
fails to meet certain thresholds that the
Commission could adopt or, alternatively, the
objective measures could provide that no security
based swap would be considered made available to
trade unless it met certain thresholds that would
be adopted by the Commission. And the Commission
also noted that this approach would in effect
interpret the phrase, made available to trade, in
the Exchange Act as meaning something more than
the decision to simply trade or list on a SEF or
an exchange. And the Commission also noted that
this approach would have the further effect of
permitting swaps to be subject to the
mandatory clearing independently of whether they
are required to be traded, so that these would be
two different independent decisions. The SEC, as I
noted, did not propose any objective standards,
stating that it did not believe it had sufficient
data at the time to support a proposal, but it did
however solicit comments on how the Commission
should craft those objective standards, and stated
that it expected it world separately address how
to determine whether a security based swap would
be made available to trade.

And also in a related context, the
Commission in the same rulemaking proposed a rule 811(c) which would require a SEF to have a swap review committee, and that that committee would be responsible for determining which swaps would trade on that SEF and which swaps would not trade on that SEF. And the Commission, we received approximately 16 comment letters relating to our request for comment on make available to trade. And roughly 11 commenters supported the proposal of providing objective standards as opposed to having one or a group of SEFs on their own determine what is made available to trade. Three commenters believe that once the Commission determined a swap is required to be cleared that swap should also be considered made available to trade. And one commenter stated its view that once a swap is listed on a SEF it should be considered made available to trade. And commenters also suggested various criteria that the Commission could look to for these objective measures in determining whether a swap should be made available to trade, and these criteria sound a lot like the criteria
in the CFTC rules. For instance, the liquidity of
the security based swap, the frequency with which
it is traded, the size of the transactions in that
security based swap, the number and type of
participants, the size of the bid offer markets,
and the number of market makers.

So in a nutshell, the Commission in its
proposal with respect to the SEF rules asked for
comment in this area, we received a significant
amount of comment and, you know, we continue to
analyze those comments to determine next steps in
this area.

MR. MCGONAGLE: Heather, interested in
hearing a little bit more about the proposed --
sort of the composition of the swaps review
committee, what did the Commission propose and
what were the commenters focused on, and how that
committee should act and what responsibilities
they should have.

MS. SEIDEL: So we proposed that the
swap review committee would have to be
compositionally balanced. And so in effect that
would mean that all classes of participants on the
SEF would have to be represented, as well as other
types of market participants, such as buy-side
firms, end-users. And this was proposed so that
the process of determining which security based
swaps would trade on the SEF would be fair and
that the voice of all the different types of
market participants, they would have a voice in
that process. We did receive I think
approximately nine comment letters on the swap
review committee requirements that we proposed.
Four commenters generally favored having a swap
review committee make the decisions about which
products would be listed or traded on the SEF, and
two commenters favored these requirements about
the fair representation on the swap review
committee. Four other commenters, however, had
some concerns about the compositional requirements
and proposed certain alternative compositional
requirements or requested further guidance. And
we received some other comments as well in other
areas of the swap review committee.
MS. MARKOWITZ: I have a question, a follow up to -- does that mean one committee that will go across the board for all the SEFs and for all the products that are listed, or are you talking about when particular SEF wants to list a product and then that committee will be formed for that SEF?

MS. SEIDEL: Right. So it would be each SEF would be required to have its own swap review committee.

MS. MARKOWITZ: So if one SEF's committee determines that it's a made available to trade does that then apply to the other SEFs in the industry?

MS. SEIDEL: No. So in this regard what we've proposed in this area is that the determination again would be that the Commission would set objective standards that a swap would have to meet in order to be made available to trade. So that was what I was referring to earlier in the terms that it would not be if one SEF said it's made available to trade then that
would be binding on everybody. It would be pursuant to objective measures that the Commission would set.

MS. MARKOWITZ: So the opinion of the committee is just the opinion that goes into the whole analysis of whether --

MS. SEIDEL: Of whether or not to list that product for trading on its exchange.

MS. MARKOWITZ: Okay.

MS. SEIDEL: And the fact that it's listing on that SEF or exchange wouldn't necessarily mean that it's made available to trade under the statute.

MS. MARKOWITZ: Okay.

MR. SMITH: Thank you, Heather.

Kazunari?

MR. MOCHIZUKI: Thank you very much for giving me an opportunity to attend this Roundtable and to present the views on the extremely important topics regarding organized trading platforms. Like mandatory clearing, There is a clear need to harmonize rules among regulators as
much as possible. In that sense let me introduce our regulatory framework on this front.

For the purpose of enhancing the fairness and the transparency of OTC derivative transactions. In Japan, Finance Instruments and Exchange Act was a mandate in 2012. The amendment to the Act were to introduce the regulatory framework for mandatory trading, the (electronic trading platforms, which was followed by a series of administrative procedures such as a publication of cabinet office ordinance, and the notification. Under the information framework, JFSA will introduce mandatory trading for Japanese yen denoting plain vanilla interest rate swaps, and electric trading platform regulations in September 1, 2015.

In this framework the entities that are subject to the mandatory use of electric trading platform, the financial institutions with the outstanding notional amount of no less than six trillion Japanese yen for OTC derivative transactions. And the entities who engage in
electronic trading platform business should be financial institutions registered with or permitted by JFSA. Requirement for the electronic trading platform business is to have order books and to transact with order books or at least request for quote for no less than three counter parties. Trade information should be published after the transaction without delay. Item of publication is to include trade date, product category, and transaction amount.

But let me move on to the determination process of mandatory trading. The determination process of mandatory trading is almost identical to that of the mandatory clearing. In order to make a determination on the produce subject to the mandatory trading, JFSA is required to conduct public consultation beforehand. JFSA makes the final determination on the products subject to the mandatory trading, taking into account the comments raised through the public consultation process which lasts at least one month. There are not any other legal constraints for JFSA on when
to make the final determination.

The scope of products subject to mandatory trading is a subset of the scope of the products subject to mandatory clearing. We considered that this approach is quite similar to the CFTC's approach. At the same time Financial Instruments and Exchange Act allows JFSA to make a final determination in accordance with the basic criteria for mandatory trading, noting that transaction volume and other conditions should be taken into account. In this context we consider our approach is similar to the European approach. We know that to avoid market fragmentation, coordination among regulatory authorities. Regulators on the Cross Border basis is indispensable.

As to the recent development on 13th of July, JFSA determined the products subject to the mandatory trading and scheduled the mandatory trading under the electric trading platform take effect on the 1st of September 2015. The products subject to the mandatory trading fixed to floating
interest rate subs which are cleared by Japan Securities Clearing Corporation and with regard to the detail of product's condition. Floating rate index is the six months' LIBOR, and tenors of -- five, seven, and ten years.

Thank you very much.

MR. MCGONAGLE: I just had a follow up question. I was interested in learning how JFSA may go about making future determinations for mandatory trading under the clearing requirement. What information will you gather and how does that process work going forward?

MR. MOCHIZUKI: Thank you very much for your question. So as explained the scope of the interest rate product that's a subject to electric trading platform mandate is to be determined by JFSA, taking into account various factors, including but not limited to a number and aggregate notional amount of the transactions per day. And basically we do not have any periodic review system, but we monitor the market development on an ongoing basis and take actions
MR. NGUYEN: Kazunari, were there other asset classes, swaps in other asset classes that were taken into consideration prior to the finalizing of the initial scope of the mandate?

MR. MOCHIZUKI: Well, basically our framework in, you know, the focusing on the certain type of products, which means, you know, the interest rate swaps. So basically we are focusing on what type of product, you know, within the type of interest rate swaps should be subject to the mandatory trading. So basically we are focusing on that.

MR. SMITH: Kazunari, one interesting aspect of your trading mandate is that it will be limited to financial institutions with outstanding notional of greater than six trillion Japanese yen, or approximately $50 billion. Can you provide just a little brief explanation of this aspect?

MR. MOCHIZUKI: Thank you. So this issue was determined in consideration of various
factors such as the conditions for the initial
introduction of the mandatory clearing. So, yes,
this condition was calculated based on that type of
analysis.

MR. VAN WAGNER: Just a quick question,
recognizing that the trading mandate swaps or
products are a subset of the clearing mandate
swaps, can you tell us are there any products that
are subject to your clearing mandate that you have
decided not to go forward with any sort of
training mandate, and if you could explain how you
made that call, made that decision?

MR. MOCHIZUKI: Well, under the kind of
Japanese regulatory framework, you know, Japanese
yen denominated interest rate swaps and certain type
of CDS are subject to the mandatory clearing
requirement. Among those As explained the aspects such
as the
transaction boarding mandate as a trading (inaudible)
worth
taking into account and we decided that the
(inaudible), the certain type of products such as,
you know, the fixed rate to floating interest rate
swaps, the six months LIBOR, and tenor, you
know, the five, seven, ten years is
appropriate for the trading market.

MR. SMITH: Thank you. Edwin?

MR. SCHOOLING LATTER: Thank you. So
while the slides come up I'll begin with an
apology. This is a linguistic one. American
English and English English are very similar of
course, but one difference is that when I -- I may
fall into the trap of referring to the Commission,
and will almost certain meant the European
Commission, not this Commission. So I thought I'd
apologize for that in advance and to the kind
hosts here.

The second point to make clear up front
in describing the EU mandatory trading regime, is
of course that we're some years behind the CFTC.
So what I'm going to describe is a regime that is
going to be coming into force in the next two to
three years, and not one that's in force already.
And some aspects of that are set out in our
regulations, the MiFIR or MiFID II. Other aspects
of it, some details of it are part of so-called
regulatory technical standards, or level two standards that are actually not yet fully finalized. As many people in the room well know, those have been out for consultation and the final standards are due to be published in September.

So having said that the broad parameters of this regime are already clear and that's what I will now describe. So firstly in terms of scope, so what derivatives will this regime cover. The key point is, as in Japan, this will be limited to derivatives that are already subject to the clearing obligation under our EMIR regulation. Two other tests that a derivative must pass before it can be made part of the mandatory trading obligation. One of those is that there is at least one EU trading venue on which it can be traded, not surprisingly. And the second is that that derivative is deemed to be sufficiently liquid. And the other point to make clearly probably is that this structure means that there is no bottom up made available to trade process in the sense that a venue can't come along and say I'm now
allowing trading in this particular derivative on my venue, therefore I would like to propose that it is included in the mandatory trading obligation. There's no route to do that in Europe, it will all stem from the mandatory clearing obligation.

In terms of what the liquidity test means, seen in the middle of that slide up there, very similar tests and language to that to which CFTC and SEC colleagues have already used. So we'll look at the average frequency and size of trades, the number and type of active market participants, the size of spreads, and so on. ESMA will also have to have regard to the anticipated impact that the trading obligation will have on the liquidity of those derivative markets, products, and the commercial activities of end users which are not financial entities. So what will be the impact on the non-financial companies that use these derivatives?

Which counterparties will the EU trading obligation apply to? Well, it will apply
to financial counterparties, clearing members, dealers, investment firms, credit institutions, other financial institutions, although there is likely at least initially and possibly on a longer-term basis an exemption for pension funds. It applies only to some -- it will apply only to some non-financial counterparties, namely those who are also caught by the clearing obligation, and that is non-financials that have positions in OTC derivative contracts that exceed various thresholds. There are about three billion euro in notional interest rate outstanding, about a billion in credit derivative outstanding for example. So not all non-financial companies, indeed not all, except pension funds, financial institutions will be caught by that obligation. I thought it would also be useful to pause for a moment on whether there will be a third county impact of this to outside and beyond EU entities. And in the regulation two types of non-EU entities are identified as potentially being subject to this obligation. Firstly, third
country entities, whether financial or non-financial, that had they been EU institutions would have been subject to the clearing obligation in EU, and for these firms, institutions, it will be those transactions that they undertake with EU counterparties who are subject to the trading mandate that will also be subject to the EU trading mandate. Now what that means of course, because it's likely that there's going to be an overlap between third country entities who would be caught by the EU trading obligation, and for example, U.S. companies who would be caught by U.S. trading obligations, is that unless we and our colleagues in CFTC and SEC have worked out an equivalent arrangement whereby a U.S. venue is a legitimate and eligible venue in which you can fulfill the EU trading mandate, and that would be vice versa, we would obviously have a problem there because on the one side you would be saying European firms have to do it at a European venue and then the other U.S. firms have to do it at a U.S. venue.
Now there is another category of firms who would potentially be caught by our trading obligation and that is this set who are described as undertaking transactions and contracts which have a direct substantial and foreseeable effect within the EU. As some of you will know what that means is being further defined in a technical standard, and I can't tell you what the current draft of that technical standard is, but let's assume for a moment it's similar to ones that were consulted on. I think that would mean this set was very, very small indeed. It's basically those that have a significant guarantee from an EU financial institution.

Now what about the timing of all this? As I mentioned earlier our trading obligation derives from the clearing obligation. And what that means is that ESMA within six months of the EU authorities adopting a clearing obligation for a particular derivative, ESMA has to give a draft technical standard which also says whether it will be subject to the trading obligation and from what
time, and for what counterparties. So for example it's possible, and I'm not in any way predicting whether this is likely or not, but it's possible that it would say yes, financial institutions, clearing members of CCPs have to come a part of the trading obligations, that non-financial companies are not. So I'm not saying that's likely, it's just possible.

Now what does that mean in terms of dates? There are still quite a lot moving parts in this, so unfortunately this isn't a train timetable where I can tell you where it's going to stop at each station and when. But what happens first is the European Commission has to endorse the draft technical standards from ESMA on the clearing obligation. Commissioner Hill said a couple of months ago that the Commission were going to do that soon, and we anticipate that in the next weeks or so. Now from then other bits of the European institutional architecture, EU institutional architecture, the European Parliament, and the so called European Council,
that's member state governments, have a period in
which they can object. If they don't object then
the clearing obligation gets published in the so
called official journal. Three weeks after that
it comes into force, and that's when this six
month timetable for ESMA to make its
recommendation on the trading obligation begins.
During that period also has to do a public
consultation. So again mirroring the arrangements
in Japan. And then that draft technical standard
will go through a similar process to the clearing
obligation technical standard getting endorsed by
the European Commission, again subject to
objection or non-objection by the Parliament and
the Council.

Now given that MiFIR doesn't come into
force until 3rd of January 2017, we can't
anticipate trading obligation being live before
then. And indeed although we can't give a precise
date, I think in working out when this will happen
it's also important to recognize the challenges
EMSA will face in doing its liquidity assessments
when the clearing obligation itself is only taking
effect in a staged manner. So in fact some firms
will not be subject to that clearing obligation
until well into 2017, which will complicate the
process of a very early trading mandate
implementation. With that said, the regulation
also says that by March 2019, ESMA and the
Commission have to report on the progress they've
made in doing this. So it's not that there's no
pressure to get this done and live, there is, and
that's part of fulfilling the G20 mandate of
course.

Where will you be able to fulfill your
duties to trade on an electric platform. So there
are three types of EU trading venues which will be
eligible. Firstly are so called regulated
markets. I guess loosely you could compare them
with the DCMs here in the U.S. And then two other
categories, multilateral trading facilities, MTFs,
our acronym, and organized trading facilities, which are
also multilateral. Pretty unfortunate that that
word is used in one description rather than the
other, but OTFs are also multilateral, and those I
guess would be more analogous to your SEFs in the
United States. Now in addition to those EU
venues, and very importantly, regulation envisages
that it will also be possible to fulfill the
trading mandate using a trading venue in a non-EU
jurisdiction where the Commission has adopted an
equivalent decision, point one at the bottom of
that slide. And point two, where that non EU
jurisdiction has also agreed equivalence for the
EU trading venues. And then looking at a little
bit more data, 30 seconds or so on what that
equivalence decision is based on. And you can see
in the ABC provisions up there, EU has to satisfy
itself that those trading venues are subject to
authorization, effective supervision, and
enforcement, that they have clear and transparent
rules seeking to ensure that financial instruments
are capable of being traded in a fair, orderly,
and efficient manner, freely negotiable, that
market transparency, integrity is ensured via
rules addressing market abuse. So now this a
process and I can't predict its outcome, but also
on a personal basis I would certainly see no
reason why, for example, SEFs would have
difficulty given that CFTC's regime in passing
those tests, but we need to pass the second leg as
well in terms of having mutual equivalence.

I think that's probably enough by way of
an overview, but again happy to take any follow up
questions.

MR. SMITH: Will ESMA periodically
re-evaluate determinations that a class of swaps
are sufficiently liquid?

MR. SCHOOLING LATTER: Right. So ESMA
is obliged under the regulation to reassess its
decisions when there is a material change. So
short answer, yes.

MR. MCGONAGLE: Edwin, I have a general
question and some specific follow ups. Just so
generally in terms of market reaction to the
proposal are there areas of interest that you
might highlight if possible where the market has
weighed in heavily and where the recommendation is
consistent or inconsistent with what you're seeing in the market in terms of comments?

MR. SCHOOLING LATTER: So I would say that from a consultation responses and the lobbying activity, it's fairly clear that the most controversial element of the EU regime is not so much the venue requirements or the process for determining whether the trading mandate applies, but the pre-trade -- in particular the pre-trade or the post-trade transparency requirements that will apply to certain classes of derivatives. Now those requirements I should say will apply whether the trade takes place on a regulated market, on a MTF or an OTF. They're all subject to exactly the same pre-trade and post-trade transparency requirements, though there are some waivers for an RFQ and voice trading systems for large in scale derivative trades.

MR. MCGONAGLE: And then specifically on the determination of the liquidity testing can you give some color or context around the phrasing of anticipated impact? What might be an anticipated
impact that would be in favor of MAT determination
-- my word, sorry -- or an anticipated impact that
would take it out?

MR. SCHOOLING LATTER: Right. So to
some extent of course I can't speak for ESMA who
will own that process, but we will be involved in
it. I imagine they will be very focused on the
likely impact on first the overall liquidity in
that derivative, and secondly, the impact on
different types of users. So the objective will
be to make this easier and hopefully cheaper to
trade through increasing transparency requirements
and through increasing access. Conversely, if it
looks like drive insisting that it's traded on
venue could have the opposite effect in terms of
overall liquidity or be very difficult or
expensive for some counterparties, that would
likely weigh against extending the trading
mandate.

MR. MCGONAGLE: And then I'm interested
in hearing a little bit more about the nexus
between the clearing determination which triggers
the six month potential implementation then for
trading, is during the objection period would
there be expect for consideration of phasing? One
of the comments I think we've heard here in the
U.S. is a clearing determination, market readiness
for transacting just solely on facilities, that
the linkage between the two or the timing from
clearing to trading might need to be broader than
what our rules currently envision. I'm just
interested to see how strict the six month
requirement is or how flexible it is rather.

MR. SCHOOLING LATTER: Right. So great
question. And of course in Europe we have the
luxury of going not first so we can learn from
your own experiences in the vanguard. There is
actually quite a lot of potential for flexibility
built into the process. So when ESMA makes its
recommendation that the trading mandate comes in,
it has complete scope to say when and to have
phase-in periods, for example applying it first to
some type of institutions you might find it easier
with lags for others. Indeed if there are early
implementations of the trading mandate, because
ESMA has already -- or the EU has already set out
a very lengthy phase-in period for the clearing
obligation, it's kind of inevitable there will
also be quite a length phase-in for trading.

MR. MCGONAGLE: So one more question. A
lawyer should never say one mere because there is
always more. The issue or the question concerning
a determination of the liquidity threshold, what
volume of trading is sufficient, how looking at an
objective standard a determination of that level
to the extent that there has been an inclination
of where the level should be set, how has that
been received by the market -- too tight, not
broad enough? Sort of any feeling about what the
reaction is to the objective liquidity standard?

MR. SCHOOLING LATTER: Right. To some
extent it's difficult to answer that questions
before decisions have been made, but I think what
will be in market participants' minds is of course
that there is already a liquidity test in the
clearing obligation, and the clearing obligation
has only been extended to already quite liquid
instruments. So because we're at most a subset of
those I would hope there's some presumption that
there is good liquidity in these markets.

MR. VAN WAGNER: Well, then in the
clearing mandates space how much transparency is
around your liquidity standard? I mean obviously
enough -- like if you look here you see all these
factors. Everybody sort of agrees on the factors,
but it's drilling down and I mean so in the
clearing space is there transparency around what
was used to make those -- be used to make those
determinations around liquidity?

MR. SCHOOLING LATTER: So there's
transparency through the consultation process. So
before a clearing obligation can be brought in
ESMA has to go through this public consultation,
has to say what it's proposed and why, and has the
chance for feedback. The other element of the EU
regime where this transparency about what's above
or below certain thresholds is relevant, goes back
to the transparency requirements. So you have
seen in the draft technical standards there are some quite specific and explicit suggestions on how we calibrate what's a derivative that's considered liquid enough to be subject to the transparency requirements and what isn't.

MS. MARKOWITZ: I just have one question. Have you all made any determinations with the three markets of the type of execution methods or the flexibility of trading in those markets?

MR. SCHOOLING LATTER: Okay. So we're not prescriptive in the EU about the execution methods that the venues have to employ. So for example taking MTFs and OTFs, they can use central limit order books, they can have quote driven systems, they can do RFQ, they can use and develop hybrids of all of those. The difference between those two types of platform, the MTFs and the OTFs, is that where it's an MTF, the operator of the venue is not allowed to use its own discretion in any way on whether to match two trading interests. That has to be entirely automatic, non-
discretionary, built into the rules of the system and totally transparent. With the organized trading facility, although the same transparency, the same multilateral, the same access requirements apply, we wanted to create room for those operators that play a role in matching trading interest. So interdealer brokers would be examples of these, and where actually they want to help generate some trading interest by suggesting those two players how aren't so far apart, and actually if they both refresh their quotes there might be a trade here, or looks like a match but they think the two -- we know the two of you would really like to deal in larger size, have you thought of doing it in larger size. So in the organized trading facility we've built in room for the operator to use some discretion in matching those trading interests.

MS. MARKOWITZ: But the same products can be traded on both platforms?

MR. SCHOOLING LATTER: Yes.

MR. SMITH: I'd like to give
Commissioner Giancarlo and Chairman Massad an
opportunity to ask questions if they have any.

MR. GIANCARLO: Edwin, I do want to just
dig into Nancy's question a little bit in terms of
methods of execution. So it is my understanding
that the OTF does not restrict methods of
execution to RFQ and order book systems, is that
correct?

MR. SCHOOLING LATTER: Correct.

MR. GIANCARLO: Within that notion of
discretion. So the notion is to allow the
platform itself to choose the method of execution
that is in the best interests of whatever market
segment or whatever practices they are trying to
achieve. Is that correct?

MR. SCHOOLING LATTER: Yes.

MR. GIANCARLO: I think that's all.

Thank you. And I just wanted to say thank you for
being here and to Kazunari, thank you and Heather
very much. This is very helpful to our work, so
thank you for coming today.

MR. VAN WAGNER: I'm sorry, I have a
real quick question. This is just a curiosity because you mentioned the trading mandate applying to financial counterparties but not to non -- the NFCs I guess you call them here. I'm assuming though that if an NFC does something, you know, off-platform, they could do such a transaction opposite a financial counterparty or they're just -- because of they're limited to just finding each other I guess that's not practical.

MR. SCHOOLING LATTER: Quite. So just firstly to clarify, NFCs, we have this concept of NFC pluses, so there are some non-financial companies who are dealing in derivatives in very substantial volumes and not for hedging processes that would be caught by the clearing and the trading obligations. Probably not so many, but the really big ones. The others as you say are outside. Certainly my understanding that when they then deal with the financial institution on the other side of that transaction that trade is not subject to the trading mandate as you say. There will be very, very few corporate-to-corporate deals
anyway.

MR. SMITH: With that I will bring this panel to a close. Again I'd like to thank you all for taking the time out of your very busy schedules to participate on our Roundtable. We will take a short break and begin the next panel at 11 o'clock. And again thank you for participating on our Roundtable.

(Off the record 10:55 a.m.)

(On the record 11:03 a.m.)

MR. SRINIVASAN: So I'm going to get started with the Panel Two. We have a good bunch of speakers out here. And as we did in the case of the first panel I'm just going to have each one of you introduce yourself and then what we decided was that the sequencing will be Amir -- he has some interesting stats from the realtime ticker -- Kevin, Professor Duffie, and then Professor Hull. So you can start with introductions from that.

DR. DUFFIE: Good afternoon -- good morning, pardon me. Darrell Duffie, Stanford
University.

DR. HULL: John Hull, University of Toronto.

MR. KHWAJA: Amir Khwaja, Clarus Technology.

MR. MCPARTLAND: Kevin McPartland, Greenwich Associates.

MR. SRINIVASAN: Amir.

MR. KHWAJA: Great. Thank you, Sayee. So I guess I have a few slides to cover. Oops, not a great start. Sorry. I'm not sure why that --

SPEAKER: It's the one --

MR. KHWAJA: This one? So we have -- okay. So I guess I'll talk first about the sources of data we've used in this analysis and really focus on on-SEF volumes and on/off-SEF percentage share. What that data tells us, picking one product from credit, FX, and interest rates. And we have some comments on how to improve that data, sort of improve transparency in this analysis, and a conclusion on those topics.
So hopefully I think about 12 slides, so hopefully -- I promised Darrell it would be 15 minutes or less.

So source of data. So I think the Clarus product we've used are SDRView. That sources data for U.S. persons trade level from the CFTC Part 43 data. So it's trade level intraday type information. SEFView, which is U.S. persons end-of-day instrument level from the Part 16 data, as CCPView, which is global at a higher product type level. So therefore we have access to in terms of data, all of that is public data which has only been available in the last three years, post Dodd-Frank, that transparency. And for what we give these sources, we have multiple sources, so there are many SDRs in the U.S., many SEFs, so for each of those we have to collect clean, normalize that data to make it comparable for analysis purposes. And then we produce a weekly commentary on what that data shows in trends. There is a Clarus blog that is widely followed in terms of people directly interested in what's new in
transparency in the U.S.

So I guess the first question I'd like to talk about is how comprehensive is that data coverage. People often ask us is it applicable, the data you have the SDRs, right. I guess the answer depends on the currency and the product you're looking at, right. So if we look at the biggest product type, U.S. dollar interest rate swaps, in terms of gross notional. And I think that shot represents the size of the data we have. So the gray circle is on-SEF volume, the green and blue is the SDR data in the U.S., and the pink is the global cleared volume. So I think -- so what we would say is the SDR data in the U.S. represents the majority of the dollar interest rate swap market, right, over 60 percent, or the cleared sub market. So then my examples, so we'll pick one product from credit, FX, and interest rates and see how the mandatory trading determination affected those product types. So I think -- so I've started with the largest index product North American investment grade, so that contract type has a MAT
determination, it's required it's five year and
it's permitted if it's seven year or ten year on
their maturities. If we look at those volumes
from January 2014 to June 2015, we can see it
averages over 100 billion, 200 billion a month
depending on the month, type, and volume. I think
all we can say is that the lowest volume was in
Feb 2014, which is the month of the MAT
determination for CDS trades. I think those
spikes you see are caused by the rolls in versions
of the contracts in March and October. And I
guess what we can say is that the MAT
determination did not impact volumes in a negative
way, in any kind of way, right. Beyond that it's
hard to observe any kind of meaningful pattern.

If we then turn to the on-SEF percentage
share I think what we see is that it's increased
from 55 to over 95 percent, and that's primarily
because it's a very standard contract and everyone
trades five year CDX NA IG). So that's like --
you know, that slide shows the -- we're over 96 percent
in terms of on-SEF share of the market for that
If we then turn to FX NDFs, which are permitted products; there's been no MAT determination, and I think here I think the top six currencies, three Latin and three Asian, what we see on that slide is that volumes have increased over the last 18 months by over 50 percent, both in trade count and in gross notional terms. So, you know, it's trading almost $400 billion in June per month. The on-SEF percent share has also gone up. On trade counts it's gone up from 27 percent gross notional up to 40 percent. So despite having very low clearing percentages below single digit percentages share in clearing, no MAT determination, on-SEF was still increased to almost 40 percent, which you put down to convenience or cost or, you know, other factors that aren't to do with the MAT determination that does exist for those products.

So we'll move to interest rate fixed float swaps which are by far the biggest single instrument type, you know, in the set SDR volume
data. They are both required and permitted, so that there has been a MAT determination for some types. And looking at those volumes again we see volumes increasing from a low in February -- I think there were some package exemptions up to June, July. And again I think the best we can is that MAT submission has not harmed the volumes. The volumes have risen quite significantly from 1 trillion a month to over one half trillion a month, but that's mostly with market expectations in trades and the fed raising rates and increased volatility then I guess in any MAT kind of process. In terms of the on-SEF percentages, so that has gone up from 40 percent to 60, as the package exemptions came to an end -- but I guess it hasn't budged in about a year, right, so if you look at the chart, so by June -- in July I would say it got close to 60 and it's hovered around that level to the market share. And I think that's primarily because there are many subtypes of that instrument type. So if I look at the on-SEF trades by far the biggest are
the spots starting, followed by IMM, followed by MACs and the non-MAT trades, the biggest portion of forward start swaps and non-standard terms amortizers or non-par coupon type of trades, right. So this is looking at trade counts of those subtypes, and if you look at the individual percentages what we do see as we'd expect is that the MAT products have a very high on-SEF percentage, 90 percent and upwards. The non-MAT products include spot starting swaps and IMM swaps in different tenors and different dates. And for forwards and non-standards there is very little on-SEF share, right. So I think that's kind of what those figures tell us.

If we think look at packages. Trades that are not just outright then here we see a very high on-SEF share. So spreadovers against treasuries, curve trades, and butterfly trades have an extremely high on-SEF share percentage, even forward non-MAT tenors and compression lists are different activities. So I think they get an idea on how the different types of swaps have different percentage shares on-SEF versus
off-SEF, yeah.

I think -- slight digression -- some comments on improving the product data. And I think that's probably because I think I've used Part 43 as a big step forward in transparency in the U.S. for what's better than the OTC markets. But there's no real forum to feedback to improve that data that's been there for two-three years now, hasn't particularly changed in the source itself. So it would be helpful -- so what we often get asked, and we have many users that read our blogs and the data products, they ask us what we would like see in the data set is whether a trade is D2D or D2C in the marketplace, whether it's voice or electronic execution, whether it's an RFQ or clob or an auction or, you know, how it's transacted. The capping of notionals kind of introduces noise because I think for large trades because there is a time delay to make public that delay or to be sufficient to discuss full notional in our view of transparency, knowing where the clearing venue is. At the moment in the last few months it's become
clear that the clearing venue affects the price, whether it's a CME or LCH swap, so that ought to be we think, you know, on the SDR tape, execution venue, which SEF traded that product type, helps transparency, and being able to link trades to a package. So at the moment we have to enhance the data to do that analysis, and that creates some false positives in that analysis. So if that was unsourced data then it would make analysis transparency available in the marketplace.

MR. MCGONAGLE: Let me -- just on that list -- sorry to interrupt. Are you presenting that list in priority order as well or is that just the list of --

MR. KHWAJA: No, no. It's not priority order. I think it's all or nothing. (Laughter)

MR. MCGONAGLE: Fair enough, fair enough.

MR. KHWAJA: And it would be helpful I would say, yes, yeah. So I guess coming back to my main conclusion, the main point of the talk really, so if we look at CDX index product and
where there is a very standard contract and
there's MAT determination, we've seen very rapid
increase to over 90 percent of that volume, of
that product on the share and no impact on
liquidity of volume that we can see, right. FX
NDFs, so even without a MAT determination we still
see an increase to about 40 percent in gross
notional terms of product, and that's for a
product type where there is extremely low clearing
percentages, single digits I would say clearing in
the marketplace, and where there are significant
cross-broader jurisdiction probably, you know,
issues, you know. So I think to us that means
it's convenient to be on-SEF for either costs
reasons or just the plumbing is there or whatever
the issues are, right. So the market itself had
decided it makes sense to move those. And that
has increased over time, right, so it's not been a
static implementation and it's increasing I would say on
the SEF. Dollar IRS I think is by far the
biggest product of these two volume terms. So
on-SEF has been stuck at 60 percent for the last 1
year I would say. So actually it moved there very quickly from 40 to 60 and it's remained at that level mainly because there are many sub-types that are not under a MAT determination. So I think it's possible that I guess some sets could consider making all tenors on spot starting at the moment, eight year, nine year, eleven year are not MAT, as is broken dates. Same with IMM and MACs. Now I think that would simply avoid the complexity of knowing which ones to exclude from a SEF, right. But normally you have to know that an eight year is not excluded, you know. Why bother? And there are a fair number of eight years on-SEF already, broken dates. And so that would add a few percentage to the on-SEF market share. But I think by far the largest portion of forward-starting interest rate swaps that are off-SEF, which again, you know, is largely a D2C type product, you know. And I think these have not shown any change at all in on-SEF transition volumes. So it's clear to us that only a MAT determination will move those. That has
complexity and that unique -- you need to capture
two dates, a forward date and end date, but
definitely they're priced off liquid spot
starting products at the curve, right. So I'm not
sure the same liquidity arguments that, you know,
we discussed -- because they're priced on
something else and that pricing is very standard.
I guess, you know, it could be done in that sense,
in our view. And I think that would make a significant
change to the on-SEF percentage. So
it would go upwards of 80 percent if forward start
swaps were made MAT.

So I think that's my last slide.
Hopefully I've kept to 16 minutes. Not bad, yeah?

Thank you.

MR. SRINIVASAN: Quick question before I
hand it over to Kevin. So you mentioned that guys
need to sort of massage the data before you
publish your reports. So could you talk to us
about the quality of the Part 43?

MR. KHWAJA: Yes. So in our view -- and
we heard this quite a bit from people. People
often say quality is not good. You know, that's not our impression at all, right. So I would say that the on-SEF cleared data is extremely good quality for our sort of analysis, right, both in terms of volume and price. I think the off-SEF unclear data is probably less, you know. I think mainly because it has a far higher number of intra-day corrections are made to that data that we see that we process, and also the timely aspects. It's less timely made public, right. So I'm not sure we could trust the execution of the off-SEF clear, unclear trade, but on on-SEF cleared I would say it's extremely good quality of data.

MR. SRINIVASAN: Kevin?

MR. MCPARTLAND: Great, thanks. I'd first like to thank the Commission for arranging the Roundtable today. We appreciate the ongoing efforts to ensure the swaps market functions efficiently and continues to thrive. Again my name is Kevin McPartland; I'm the Head of Market Structure and Technology Research for Greenwich Associates. We are an independent, privately-held
researched-based consulting firm. Our clients span the entire market ecosystem, including large banks, real money investors, hedge funds, principal trading groups, financial technology providers, exchanges, and more. We interview about 60,000 market participants around the world annually and have been doing so for more than 40 years. We used the quantitative and qualitative information collected from those interviews to examine the impact of market structure changes, regulatory, technological, and economic on the industry and its participants.

So before we discuss ideas for change I think it's important to first examine more closely how far we've come in the past five years. In 2010, interviews with over 100 U.S.-based investors trading interest swaps revealed that 17 percent of them were trading at least some of their volume electronically. In volume-weighted terms this amounted to nine percent of notional volume traded. The rest of that volume of course was traded via the phone, instant message, and email.
And remember we're talking about the dealer-to-client trading.

If we fast forward to today, in 2015 our latest data, which was finalized just months ago, paints a pretty amazing picture of change. The 17 percent of investment firms trading some volume electronically in 2010 has jumped to nearly two-thirds in 2015. Looking at asset managers specifically the increase is even greater, now up to three-quarters of those firms. To further that story 60 percent of client trading by notional volume is doing electronically today, up from 9 percent in 2010.

The transformation of the CDS market is even more amazing. Five years ago, less than 10 percent of investor trading volume in investment grade index CDS was done electronically, today that number has jumped to an astonishing 93 percent. That is the highest rate of electronic trading reported in any market that we cover, including markets known for their electronic trading, like equities and FX. The result of this
change is a market with increased price transparency, more competition amongst liquidity providers, and increasingly better execution quality for investors. And while the trade life cycle has become more complicated, the automation and risk reduction is proving worth it.

So while we're here today to talk about improving the process let's not lose sight of how far we've already come. Further expansion of SEF trading is inevitable, but it will be unnecessarily slow if the current made available to trade process remains as is. The first MAT submission was expansive, looking primarily at what was already clearable rather than what was already trading in an active way on screen. While this approach seemed logical on the surface, market participants quickly revolted claiming it was trying to move too far too fast, and it probably was. But the industry's reaction served to discourage other SEFs from pushing the envelope with their own submission for fear that trading would either leave or never come to their
platform. As such, the MAT submissions that followed were scaled back to a more manageable level and close copies of one another, the SEFs feeling safety in numbers. They targeted products that were already trading on screen, and as such would provide for a more organic way to move to mandatory SEF trading. Clients of the SEFs knew something had to be MAT'ed and saw these narrower submissions as a workable solution given their previous experience trading these products electronically.

In the months since as we've seen SEF trading grow and investors become increasingly comfortable interacting with the street, electronically conflicting interests have continued to ensure that MAT submissions will occur infrequently if they ever occur at all. While we are in general a fan of allowing natural market forces to drive change, the uncertainty created by a jammed up MAT process cannot slow progress that might have otherwise occurred naturally. The original assumption was that SEFs
would want as much mandated for trading as possible given most derived revenue from volume, and so would make as many swaps available for trading as they could. The reality, however, is that as any good business owner would do, the SEFs don't do what they want, but instead do what is best for their customers. So while both the buy-and sell-side have adapted well to electronic trading in some interest rate swaps and index CDS, they'd still prefer to make the method of execution decisions on their own rather than being told what to do.

To some extent this organic approach to electronic trading growth works, but the FX derivatives market is a prime example. Greenwich data shows that clients trade about one-quarter of their FX options electronically in the past year and about one-third of the NDFs electronically. Note that this does not include inter-dealer trading, only client trading as I mentioned earlier. Both products fall under the CFTC's oversight of course, but neither has yet to be
mandated for clearing or SEF trading.

Nevertheless electronic trading in both is growing with investors telling us that they plan to do more electronically in the coming year. While organic adoption of e-trading works, the timetable for adoption is considerably longer than for a product mandated for SEF trading. As such, we believe that the CFTC should take control of the MAT process, citing which products should receive SEF trading mandates using an approach similar to the ones used to making clearing determinations. A set of metrics should be agreed upon to make these determinations, including current rates of e-trading adoption for instance. The impact on the current market functioning must also be closely examined. For instance of NDFs were mandated for clearing and SEF trading would the significant increase in costs associated with those requirements cause market participants to leave the market altogether. The impact on package transactions should also be accounted for. With our experience over the past four years and the rates
market as a guide. Lastly, industry input should also be taken into account, particularly from liquidity providers, investors, and the swap execution facilities themselves. Allowing the CFTC to make the final determination as to what must be traded on SEF would take the existing conflicts out of the process and allow the implementation of Dodd-Frank to continue on at a reasonable pace.

As we move forward let's not forget the benefits already gained from mandatory clearing and trading, and work together to ensure those benefits grow.

Thanks again for your time.

MR. Srinivasan: Darrell.

DR. DUFFIE: Thank you. I appreciate the chance to be here this morning. First I want to alert you, I've been given a consulting assignment that if it had any effect on its opinions would tend to cause them to be more in the direction of a buy-side market participant with respect to the issue of made available for trade. However, I can assure that it hasn't
affected my opinions at all. My opinions are my own.

So first I want to echo some of the remarks of Kevin about why this is important and I want to expand in both the areas of market efficiency and financial stability. We often think of the central clearing mandate as related to financial stability and the exchange trading mandate as related to market efficiency. And that's true, however these are very much co-determined. There are obvious complementarities here. A central counterparty is not going to set up business unless it has a reasonable prospect that your stance on made available for trade is likely to bring business their way, and conversely an exchange operator or a SEF operator is -- the benefits to them of setting up trade are much diminished if there is no central clearing and straight-through processing. It's not to say it's impossible, but that direction of dependency is also very clear.

I also want to echo Kevin's remarks on
my view that although it may be difficult, and there's going to be a lot of judgment calls I think you want to have your hand on the tiller pretty firmly in terms of what you make available for trade. And I think that echoes some of the remarks also of Heather Seidel from the SEC, and to the extent that I understood it the remarks from the representative from the FCA in that the conflicts of interest within the market itself will not necessarily always resolve themselves in favor of market efficiency and financial stability for the obvious reasons that Miss Seidel mentioned this morning. There are obviously SEF operators who prefer to have more made available for trade. And if it were left to them and not you, you might end up with inappropriately many or wrong things made available for trade. And on the other hand, if dealers were to have their first choice, it would be very natural that they would prefer not to be competing with each other for rents associated with intermediation. That's the first principle of economics.
The thing I want to spend most of my remaining remarks on is the fact that not all exchange trading is alike. And I know you're very aware of that, but there are additional complementarity and network effects here. For example, in terms of liquidity, whatever market structures are set in place first have a lot of persistence. It's very difficult to switch. So once you approve something, it's made available for trade, you've made entry much more difficult because liquidity goes where liquidity is.

The second area is the fact that there are conflicts of interest and also just differences of views on the nature of the most effective matching methodology. So the sort of gut reaction to what kinds of SEFs are appropriate is well, we'll have RFQ and whenever the trading gets sufficiently active then the industry will figure out on its own that it should be trading in a central limit order book because you have sufficient in volumes. I think that view is naïve. First of all, not all central limit order books are the
same, and in the CDS market the buy-side has shown
a lot of hesitancy in participating in central
limit order books because of name give-up. And I
think that's been well-remarked upon. And in an
RFQ setting, if you are facing a dealer as a buy-
side market participant you're -- as those are
generally set up that way -- you'll have lost the
opportunity to provide liquidity to other market
participants yourself, that is to provide quotes
to other and earn rents that way, and also to get
more efficient trade matching. All-to-all anonymous
central limit order books are a lot more efficient
at getting matching. They don't have to be
continual central limit order books if there is
not enough volume, you can have batch trading.

So in my view, you should be very open-
minded to SEF designs and in my view it would help
markets if you take your own views and not simply
rely on what's presented to you, and I know you
wouldn't do that, but take your own views on the
efficiency of the trading environment that's being
proposed by the exchange operator that wants to
set up a trade.

On the specifics of FX derivatives, and coming back to the financial stability issue, I know it's water under the bridge, but academics are never -- had that much influence by water under the bridge arguments. We're talking about a much smaller amount of financial stability gains in the non-deliverable forwards area that was let go in the physical delivery exemption that was made. I want to reemphasize -- and I made a submission to Treasury on that laying out my views. There is every bit as much financial stability concern in that market as there is in the credit default swap market. And the fact that CLS is already taking care of the gross settlement risk, a point that's been overemphasized from the viewpoint of reducing financial stability concerns, is not really pertinent here. When we're talking about non-deliverable forwards there never was a gross settlement risk in the first place. It's all mark-to-market risk and it's quite big. When we get into the deliverable
currency FX market, the mark-to-market risk of that
market is very large and it's much more highly
concentrated than essentially any other derivative
market in terms of market participants and the
types of underlying financial instruments. Eurodollar
short-dated FX deliverable forward is at
everly highly concentrated amount of
counterparty risk. So I know that you don't
control that mandate here at the CFTC, but as an
academic I said I'm not influenced by the water
under the bridge argument. I'm going to keep
bringing this up as often as possible because it's
a big concern.

The other area in the FX market that you
maybe are already thinking about is the renminbi.
The renminbi as you know is becoming
internationalized and that's going to have two
effects on the value of exchange trading. The
increased internationalization is going to reduce
the need to have that be a non-deliverable
product. It will become at some point
increasingly a deliverable FX market as renminbi
become physically available throughout major financial centers to a greater degree. Going the other way, the non-deliverable market may grow substantially simply because the renminbi is becoming such an important international currency. So whatever you decide in the next short while with respect to RMB, you might want to revisit it in the near future based on how market conditions have changed with respect to the size and mix between deliverable and non-deliverable RMB.

With that I'll stop.

MR. SRINIVASAN: I'll wait for John to finish his comments before we come back with questions. John?

DR. HULL: Okay, thank you, Sayee. Yes, we were joking earlier that as I'm the last to present I have the equity tranche. Anyway, I'd like to thank CFTC for inviting me here today to present my views. Much of my research over the last 30 years has concerned the over-the-counter derivatives markets, and I followed with great interest the changes that have taken place
following the 2009 G20 meetings and the 2010 Dodd-Frank Act. I'm probably not as close to the mandatory trading rule as the other panelists here, so you can think about my comments as being more from, you know, 100 miles up.

I'm going to focus a little bit on execution when I get on to the main part of my presentation. But let me first of all say that I generally support the changes that are taking place in OTC markets. I think reporting all trades for example to a central trade repository is clearly desirable. It's something that's long overdue, it gives regulators the opportunity to recognize situations where unacceptable risks are being taken, and it also creates more post trade price transparency. And, you know, most aspects of the new rules concerning the way standard trades between financial institutions must be handled are also in my view prudent.

But the subject to today's meeting is CFTC's made available to trade rule; and as was pointed out earlier the swaps that are subject to
this rule at present are plain vanilla interest 
rate swaps in the U.S. dollar, euro, and sterling 
with nine standard maturities, standard payment 
frequencies, standard day count conventions, 
holiday calendars, and so on. And they also 
include five year credit default swaps on CDX IG, 
and iTRAXX.

The first point I'd like to make is that 
the entities trading these products on SEFs are 
for the most part sophisticated financial 
institutions. Indeed as far credit default swaps 
are concerned I would -- you know, I think it's 
pretty much the case that only financial 
institutions trade credit default swaps, so I 
think that would certainly be true of credit 
default swaps. As far as interest rate swaps are 
concerned, of course non-financial end users do 
trade interest rate swaps, but non-financial end 
users when using swaps to mitigate risks are 
largely exempt from the MAT rule and will tend to 
trade directly with banks using ISDA master 
agreements and bilateral clearing. Banks with
assets less than $10 billion are also exempt from the rules. So again my point is that most of the entities trading the products are fairly sophisticated financial institutions. And I think this highlights and important difference between swaps and futures. The entities trading swaps on SEFs are a relatively small number of sophisticated market participants. By contrast there are hundreds of thousands of participants of course in futures markets. The CFTC doesn't need to protect swap markets in the same way that it protects futures market participants because after all it's the market participants themselves that created the market. They understand it very well. Another important difference between swaps and futures of course is the volume of trading. In swaps markets, trading takes place spasmodically. In futures markets it takes place continuously. And transactions in the swaps market, of course, when they do take place, are much larger. As mentioned earlier, swaps with nine standard maturities between financial institutions
are subject to the MAT rule, and those nine
standard maturities, as was pointed out earlier,
are two, three, four, five, seven, ten, fifteen,
twenty, and thirty years, if I didn't miss any out
there. But these have always been the most
popular maturities. And statistics from Clarus
show that there has actually been a marked
increase in the use of non-standard maturities in
the last few years. Non-standard maturities such
as nine, fourteen, and nineteen years, and I think
this can only be to avoid a swap being classified
as a standard deal and subject to the MAT rule.
There has also been a tendency for swap trading to
move offshore. It's become well known that
standard swap trades involving U.S. persons are
less attractive than those that are free from the
CFTC rules. For example, ISDA produced some
statistics showing that euro interest rate swaps
between European and U.S. dealers declined from
25 percent of the total market to 9 percent of the
total market. It seems to me that this is a
potentially serious problem that the CFTC should
think about. We're in danger of another regulation queue-type situations where regulations causes a whole market to be lost to the United States. It's true of course that other jurisdictions are implementing their own version of SEFs and OTFs, but I think the very real danger is that the rules in other jurisdictions will have much more flexible execution than the rules in the United States.

So I have to say that I'm forced to the conclusion that CFTC's regulation of SEFs should be more principles-based and less rules-based. It should allow optimal trading practices to evolve subject to broad principles specified by the CFTC. SEFs should be encourage to experiment with different trading models so that competition determines the best way of organizing trading. And this of course is what's happened over time in other markets. Pre-crisis trading in the swaps market had evolved to a point where it made extensive use of interdealer broker, and I think that in markets where trades take place
spasmodically, human brokers do seem to help efficiency and to be necessary to create liquidity. They're used in the bond markets, they're used in, for example, the real estate markets, to give a totally different market. And those are both markets where trading takes place spasmodically. When trading takes place continuously it can be completely automated so that virtually no human intervention is required. And it may be there will be technological developments allowing trading in less liquid markets such as swaps to be totally automated. But my impression is we're not there yet. And this I think creates a dilemma for the CFTC and, you know, regulators in other countries. You want full pre-trade price transparency, and this is clearly possible if trading is fully automated. But it seems that efficient trading for many swaps requires human brokers. Full trade price transparency is then not possible. It's not really realistic to require every voice interaction between a broker
and a potential trader to be made available to the market. And let's not forget that we do get full post-trade price transparency from the trade repositories. I think one can argue to some extent that pre-trade price transparency is icing on the cake and full pre-trade price transparency may be an unattainable objective, except for the most liquid swaps out there. And I think our objective is to embrace more than just the most liquid swaps in what we're doing here.

Let me use an analogy here, and I apologize if you don't like this analogy, but when I sell my house I probably have access to the selling prices of other similar houses and all the asking prices, but I don't have access to all the bids and any backwards and forwards negotiations that go on between buyer and seller, nor do I have access to all the discussion that goes on between a real estate agent and his or her client. And as far as I know, no one has ever contended that this would be useful or necessary. I know this is a silly analogy, but derivatives markets are not
totally dissimilar from houses. They trade spasmodically. Some houses are almost perfect substitutes for each other and others have more unique features. So I think it would be dangerous to suggest that we don't need human brokers at all.

There may be a compromise here though. I mean CFTC could allow human interdealer brokers but require any information they send to clients on actual trade prices or indications to be generally available to the market. The main beneficiaries of this would I suspect be end-users who for the most part I understand are trading outside SEFs. It would not be derivative dealers because they're pretty close to the market anyway. So we need to let optimal trading mechanisms develop by trial and error and competition. Trading platforms should develop organically, and will change through time as derivatives markets change. Because just think how quickly derivative markets have changed in the past and we can't expect them to just stay the same just, you know,
because we've regulated the trading practices. So some flexibility is required there.

What other CFTC principles should there be? Clearly there should be a high standard of professional conduct. And I for some time advocated there should be a required professional certification for anyone who trades or brokers over the counter derivatives. Now may be the time to introduce that.

I'd just like to mention one or two specific CFTC rules. I would actually abandon CFTC's rules requiring three requests for quotes, although I was interested that that's planned to be introduced in Japan. I think if two sophisticated financial institutions are prepared to trade with each other there seems to be no reason why the trade should not be allowed to proceed. In an illiquid market, we don't want to make trades more difficult than we have to. And to continue with my house analogy it wouldn't make any sense for me to require that I obtain three bids before I'm allowed to sell my house. I would
also abandon the 15-second time delay rule and the block trade rule. What I would do is allow individual SEFs to use those rules, but not require them to do so, and in that way we'll determine whether the rules are positive for the market in terms of the development of liquidity.

So to conclude, there can be no argument that the over-the-counter derivatives markets serves a useful purpose in transferring risks in the economy and has done so for a long time. It's grown very, very fast and will continue to grow and adjust to the risks that are out there in the economy. And sometimes rash decisions have been made and then they've led to big losses. I think regulators should feel very proud that the extra margin requirements and trade repositories have greatly reduced systemic risks and increased post-trade price transparency. In terms of the overall health of the financial system, I would argue that regulating trade execution is less important than the other two things. In other words, it's less important than regulating trade reporting and
increasing margin requirements. And I would also argue that it actually requires quite a light touch because one doesn't want to interfere with liquidity. And we don't want to make it difficult for the best trading platforms to develop. Above all we don't want a swaps market to move away from the United States. The United States as we've heard is already ahead of other jurisdictions on mandatory trading. It should aim to also lead the world in optimal trading practices for swaps as it has for other financial instruments.

Thank you.

MR. SRINIVASAN: Lots of different themes out here. I had a question, and you can sort of take in any order you want to, maybe I'll start with Darrell. This is -- we had a panel a couple of months ago where there was a head trader from a buy-side firm saying that nothing ultimately has changed in the marketplace in terms of how they do business. They used to do D-to-C, they continue to do D-to-C. The form used to be called whatever, now it's called a SEF. The
shingle has changed but nothing fundamentally has changed. So if you think of, you know, some regulatory perspective and you want to sort of encourage the growth of the markets and trading on the regulated platforms, on the other side you had this kind of pre-trade transparency and potentially encouraging competition I guess. So I'm curious to hear where is the buy-side? There will be sort of conflicts of interest from the sell-side perspective, but where is the buy-side? And how do you get the buy-side to sort of come and sort of compete with the dealer? I just thought if you have any thoughts on it. Maybe I'll start with Darrell with the idea that you have this consulting gig on the side.

DR. DUFFIE: Sure. Well, we could just go to history. In the early 1970s, the Chicago Board Options Exchange introduced -- put option trading on a board of trade. And within a year volumes had -- in fact on their first month of trading volumes exceeded any other prior year of OTC trading in that market. Why? Because of the
opportunity for everyone, buy-side and sell-side,
to meet in the same venue and to compete with each
other to provide liquidity to each other. Volumes
soared and now there are many orders of magnitude
greater than they ever were in the OTC market.
Almost every other case in which exchange trading
or aspects of exchange trading, like trading
platforms with central limit order books were
introduced, the same benefits were achieved in
terms of lower trading costs, higher volumes.
Volumes are important because they tell us how
many potential trades where there were gains from
trade actually occurred. So volume is a good
measure, not completely satisfactory, but a good
measure of the benefits associated with allowing
exchange trading. In some cases the experiment
has not been as successful as is it might have
been. The CDS market which I mentioned earlier is
a good one and I think that's because of the
practice of name give-up at the only venue that
has all-to-all competition for trading, which is
the interdealer broker market for CDS. The buy-
side tends to shy away from that market because they're required to give up their name to whoever participates as sort of a randomly chosen counterparty as opposed to RFQ market which provides much less competition for that trading order, but you can control who gets the information about your trading interests. That's very important to the buy-side. As a result we have a two-tiered market. This is all described pretty well in a Managed Funds Association memo on this issue.

So as I mentioned in my prepared remarks, it's not just whether we have exchange trading or not, it's the manner of exchange trading that largely determines how much everyone, not just the buy-side, benefits. I shouldn't say everyone, the dealers of course are going to lose some of the rents associated with providing immediacy, but more gains from trade and all of the other advantages of exchange trading that we know about, operational gains, lower margin requirements when you have central clearing, and
so on. So I wouldn't agree with the suggestion that it really doesn't matter that much, I think it matters quite a lot.

MR. SRINIVASAN: John?

DR. HULL: Well, your question was about end-users. And I mean there are obviously many different sorts of end-users out there. Some are financial institutions like insurance companies and so on, and fairly sophisticated, others are hedge funds, and some -- you know, those sort of end-users I think would be fairly comfortable trading on SEFs. But, you know, many of the, shall we say, corporate end-users who perhaps, you know, trade just a handful of derivatives every year would far rather not be bothered with all the overheads of using an SEF. It's just much easier to call up your friendly local banker and, you know, do the trade directly with the bank. On top of which of course, you know, the whole nature of the OTC derivatives market is that you can tailor the deal to meet the needs of the end-user. And this is particularly true for the small corporate
end-users. And so this is something they can do if they deal directly with a derivatives dealer, but much more difficult if they're using SEFs. So I think there is sort of two, you know, parts to the market. You know, we'll continue -- I don't think it's realistic to expect every end-user to want to use SEFs.

MR. KHWAJA: Yes, I guess I think from what Kevin pointed out, I think the buy-side has moved to electronic trading and Kevin shared some figures on that. I guess they've remained -- they've preferred to remain on RFQ model and trade with Bloomberg. I think that has been their choice, you know, for buy-side participants. Yes, I don't see -- I hope whereas the active order books we see in rates and credit are in the inter-dealer sort of trade activity. But I think, you know, that that's been a choice made by their participants, right. I guess over time we would see more firms do what Darrell talks about, you know, that aren't traditional market makers. And I think that is starting, and I think over time as
there is money to be made and more efficient I
think it will happen. But I think it sort of --
it will happen through economic benefits, right,
as opposed to mandates.

MR. MCPARTLAND: So I can take both
sides of the, you know, nothing has changed
debate. So on the going with nothing has changed,
really what RFQ has done -- and this is how it
started in the bond markets as well -- essentially
it's automating the phone, right. So you still
have the largest dealers interacting with the
largest financial end-user products. They're just
doing it, you know, clicking through rather than
picking up the phone and calling three people.
They're doing it through a machine. And I know
I'm oversimplifying, but to some that is what
happened, we've automated the phone. And I
suspect that's where those comments came from your
previous panelists.

And then the other statistic that we
look at quite closely in terms of a changing
landscape, still over 60 percent of client trading
of interest rate derivatives in the U.S. happens through the top 5 dealers. So it's still very, very concentrated from a trading perspective on the bank side. The flip side to that argument is -- and I think Amir pointed this out quite well -- is that the amount of data that we have in the market today is leaps and bounds beyond where it was in 2009. Even of course there are places where we would all like to see more information, but it's not even close to where we used to be. So I think that was a huge change.

And then sort of to take the flip side of the sort of dealer concentration statistic, we are starting to see change there. Citadel Securities has been pretty open about their interactions in these marketplaces and that's -- people are looking at that as an interesting test case to see if sort of non-traditional bank liquidity providers can come into these markets and really shake things up. And it seems to be, you know, it seems to be that they are starting to shake things up, so I think that's pretty
interesting.

And then lastly, on the things have changed side is that -- and I think Darrell alluded to this -- is that the profitability of these businesses at the major sell side firms have changed dramatically. So a lot of the products that were once pretty profitable over the counter, they're now treated as flow products, they're traded electronically, they don't require as much human intervention. And in some of those cases, those sell side deals would prefer to further automate those outside classes because they're not making much money there anyway. So the less human capital they have to deploy to trade them, the better. So they're encouraged to trade more electronically in some of those places.

The other point that I think is worth mentioning, and John spoke about this a bit, is yeah, we talk about the buy-side all of us often as a single thing. They're very, very different, right, real money, insurance, and hedge funds, they're very different entities with different
needs. We ask every year what is your preferred trading protocol on SEFs -- well, every year since there have been SEFs -- and still by and large they look for RFQ. And I think the buy-side has been collectively happy with the way things have been. That doesn't mean it's the best way and the way things should be, it just means that they're not feeling enough pain to really push for a change or to push for a new way of interacting with one another.

MR. SRINIVASAN: I have one more question before that. I wanted to ask Chairman Massad or Commissioner Giancarlo, do you have any questions? So the question I had was in terms of we're all economists here, at least a few of us here, in terms of price discovery, right, so from your research on these markets -- and this is like to economists, which is what the state of the swap markets in terms of, you know, the quality of the price discovery process? If folks are comfortable with any of the status quo in some sense they're not feeling any pain then, you know -- so that
balanced against this other view and approach in
some jurisdictions of the regulators taking a more
active role. Regulators prior to Dodd-Frank were
just not comfortable sort of defining, at least in
the digital space, in terms of prescribing a market
structure. We know what happened in the
Reg NMS. So how do we sort of balance these
two, right, in the sense that if firms are
comfortable that the prices can reprocess and, you
know, we should let the market find its own
equilibrium in terms of the level of transparency
that they are comfortable with, because how do we
determine from our perspective or how do we
facilitate -- what's our role in sort of improving
the price discovery process? Once again, Darrell, if
you want.

DR. DUFFIE: Okay. With respect to the
lessons of history, TRACE is probably the best
experiment there. And the results are generally
-- I'll characterize them because it's a messy
literature -- but there are about 10 papers in the
literature and to the extent that it's price
transparency, post-trade transparency has improved liquidity. It's been generally the case that bid ask spreads have lowered and that in the least liquid products the additional transparency has discouraged the provision of deep markets for some of the less, you know, high-yield bonds and so on. But I think we need to focus both on what -- well, we need to make a distinction between post-trade and pre-trade price transparency with respect to what they do. Both of them help the end user to know what the going price is and therefore to be in a better negotiating position with respect to the -- usually the dealer on the other side. That improves rents for the buy-side, makes better shopping opportunities. However, pre-trade price transparency does one additional thing. When you have sitting in front of you a number, let's say three or five executable price quotes and you can simultaneously hit the button on one of those five, that's a lot different than contacting in sequence five different dealers on the phone and then finding which dealer offered the best price.
It might have been the second one. You go back to that dealer and you say okay, I'll take the price that you offered me five minutes ago and then the dealer may say well, you know what, markets have moved in the last two or three minutes and it will be very difficult on average to contract on the same price that you got the first time around. So pre-trade price transparency short circuits that problem and forces whoever is providing quotes to compete against other simultaneously, and that provides better opportunity for competition to work and to create more trade.

MR. SRINIVASAN: John?

DR. HULL: Okay, but we don't have pre-trade price transparency in TRACE or bond markets. So I mean I like the TRACE analogy. I mean I think it's a really good example of how more price transparency has made the market more liquid. But it was actually post-trade price transparency, and I think post-trade price transparency is much more important than pre-trade price transparency. And that was one of the points that I made in my
earlier presentation.

MS. MARKOWITZ: Dr. Hull, I just have a follow up question to something that you said. When you were talking about things that we should abandon one of the things you had said was the 15 second time delay rule and blocks. And since those are two methods that we've allowed in our rules as an exception to trading, you know, competitively, I guess I would like you to flesh out what your thought process is on that.

DR. HULL: Yes, the 15-second time delay rule I mentioned and the block trade rule, I mean were the two things.

MS. MARKOWITZ: Yes.

DR. HULL: I mean I understand the need for the block trade rule in other markets, you know, the futures markets and the equity markets. I'm sort of less clear about whether it's really necessary in the swaps market, the trades are so big anyway. So somebody comes along, wants you to do a trade that's, you know, five times or ten times a sort of average trade. Is it necessary to
handle that one differently? I think my point was
maybe it is, maybe it isn't, but I would let the
market determine that. I wouldn't legislate it.
So I think that was the point that I was trying to
make as far as the block trade rule. I wasn't
sort of necessarily going to throw it out of the
window, I was just saying that I wouldn't be too
prescriptive about it. And, you know, basically
the same sort of thing about the 15-second time
delay rule. I mean it may well be that that
actually does help the market function better, but
if it does then SEFs are going to implement it
anyway. So I wasn't really saying these are bad
rules, but I would say that I wouldn't necessarily
impose these rules on the market. I'd let the
market determine whether it wants to use those
rules or not.

MR. KHWAJA: I think you can comment, so
I think -- I'm sorry if I jump -- so I think it's
really a 15-minute time delay to --

DR. HULL: Seconds.

MR. KHWAJA: Fifteen seconds?
MS. MARKOWITZ: He's talking about crosses.

MR. KHWAJA: Oh, cross? Okay.

DR. HULL: So did I say 15 minutes? I mean 15-seconds time delay rule.

MR. KHWAJA: Well, I thought the argument given by the industry was that they need that time to warehouse). On a very large size, and not even that time delay mean people being aware and acting against you that would impact liquidity.

MR. SRINIVASAN: My timekeeper is saying that time is up. Thanks once again to the four of you. Thank you.

MR. SMITH: We will take a short break until 11:15 and then we'll begin with Panel Three -- or 12:15, excuse me. I'd like to thank all of you for participating on our panel and we'll start the next one at 12:15.

(Recess 12:05 p.m.)

(On Record 12:20 p.m.)

MR. SMITH: All right. I will now begin Panel Three. Panel Three will focus on the MAT
process and prospective changes that could potentially enhance this process. In this panel we will discuss numerous concepts including who should make a MAT determination, the appropriate criteria for making a MAT determination, as well as product specific considerations.

Before I begin the panel I'd like to go around the table and have each of you introduce yourselves, as well as the firms you will be representing today. And I'll start with you, Tom.

MR. BENISON: Tom Benison, J.P. Morgan.

MR. BERGER: Stephen Berger from Citadel.

MS. CAVALLARI: Lisa Cavallari from Russell Investments.

MR. FRIEDMAN: Doug Friedman from Tradeweb.

MR. HIRANI: Sunil Hirani from trueEX.

MR. JOHNSON: Vincent Johnson from BP representing ISDA.

MR. LEIZ: Arthur Leiz from Goldman Sachs Asset Management.
MS. PATEL: Angela Patel from Putnam Investments.

MR. SENFT: Dexter Senft from Morgan Stanley.

MR. SHIELDS: Bill Shields from GFI Swaps Exchange, representing WMBA.

MR. STEINFELD: Ron Steinfeld, MarketAxess.


MR. TSAI: Edward Tsai, Credit Suisse.

MR. SMITH: All right. Thank you all for being here today and agreeing to participate on our Roundtable. As I mentioned before when we spoke about this panel— I will throw out questions; you're welcome to respond and jump in as you feel as appropriate. In order to signal that you'd like to participate in a question please turn your placard to its side so that I know that you want to participate. I will begin with the first question.

Should the prescribed approach for
applying the current MAT factors and MAT
determination be modified? Lisa?

MS. CAVALLARI: The short answer is yes.

(Laughter) It should be modified.

I think before I continue, and Mr.
McPartland did this earlier in a
prior session, we've undergone a
tremendous amount of change within
since the SEFs have been up and
running in February 2014. And I
think we have to recognize that a
lot of progress has been made and
that the buy-side, the sell-side,
the SEFs, and the derivative
clearing organizations have all
come together to get us to this
particular point in time. So I
appreciate the opportunity to be
here today to speak about what
potential improvements could be
made to the process. I can only
imagine that perhaps we didn't
envision that we're at this state in the process without additional MAT determinations, for example, being applied for self certification since that time. I do think that because we have a subset, because we have over the past close to 35 years of OTC trading, we've taken that and we've driven a subset into what should be cleared and then further refined that into a subset of MAT or SEF required trades. Those particular trades much like the clearing determination does I believe -- representing Russell Investments -- require a little bit more of perhaps CFTC -- I don't want to say intervention, but perhaps the invisible hand of setting off that process. I know right now that it is not written that way, but I do
believe that we could be better
served doing that.

I think another point to make is that
although we haven't seen it in subsequent
applications because arguably there haven't been
very many, just having one factor apply to be
discussed in an application is probably too small
a number shall I say.

So those would be my comments on that
particular question.

MR. SMITH: Sunil? And thank you for
your comments, Lisa.

MR. HIRANI: Yes, thank you. So, you
know, I think there were six factors to consider.
And I think if you go back to when the first MAT
application was filed the factors are clearly --
you know, they're very subjective and so it leaves
a lot of interpretation. It's a one-sided filing
by the venue without really any incorporation of
market feedback or regulatory oversight. So that
I think was a reason. So I think some people may
remember, I think we filed, you know, the second
MAT application and I think the reason we filed it as narrowly as we did is because, you know, there is a lot of barriers, there are a lot of hurdles to actually onboard, and so from our perspective filing a very thin MAT application would give both the dealers, the buy-side, and the venues an opportunity to actually onboard rather than having a rush of, you know, a flood of activity.

The other thing that struck us was that the technological readiness of the venues and how that correlated with what the MAT application actually, you know, articulated. So I think those factors need to be taken into consideration as well.

MR. MCGONAGLE: So, Sunil, I'd -- so I'm jumping because you said I could jump in. You know, you mentioned the technology. I think one of the questions that had come up during the initial MAT filings was the market prepared -- either market participants or buy-side prepared to come in, but in particular were the SEFs able to handle the business. And, you know, just in
your reaction about how the SEFs handle the
business and, Doug, you can lift your thing too
because I -- when those MATs were filed and, you
know, responding to those comments we did -- you
know, we proceeded with some staging, but we
didn't put off because of questions or concerns
about the technology capability of the facility.
So I wonder what opinions are there.

MR. HIRANI: Yes, so, you know, look I
think certainly today, you know, venues like truEX
can handle a broader set of instruments than what
is currently MAT’ed. But I think there is another
dimension which is on boarding of the dealers. So
in two and a half years, you know, we have only
been able to -- and just in the beginning of this
month, two of the top five dealers -- and then in
two and a half years three of the top five
dealers, so we're still missing two out of the
five dealers. In aggregate we've been able to
onboard seventeen. So it is a long process and part of
it was we did our MAT application knowing it was
going to be a longer process, and because if you
MAT everything, you know, you're not going to have a competitive marketplace because all the business is going to go to the incumbents and there won't be an opportunity for, you know, competitive venues to exist. So that -- you know, and even today I don't think we certainly feel comfortable to file any additional MAT applications because we don't have all the top five dealers. I think Kevin I think made a point, the huge concentration in these markets with the top five dealers and so I think, you know, when we have an additional three dealers I think we would certainly feel much, much more comfortable to consider it. But we are certainly not in a rush to file any MAT applications at this point, even though our technology can handle any currency, any date, any number of line items, near risk, old risk, you know, any combination there. Just because we're technologically ready does not mean the dealers, you know, are ready or the buy-side have the resources to code up to everything.

MR. SMITH: I'll go to Doug to respond
to Vince's question and then I'll come to Dexter to respond to the original question.

MR. FRIEDMAN: Thank you for the opportunity to be here. When Tradeweb was assessing their MAT submission we were looking -- and we had the benefit of looking at our historical swaps trading since 2005. And we took the responsibility of filing our MAT very seriously and we also -- what we focused on is what were we offering electronically already, what was being readily priced and traded electronically, and applying that to the six factors that were there. And so we were in essence assessing our own technological capabilities as a barometer for what we thought was readily available and ready to be traded in a mandatory fashion. And we also were offering -- we offer electronic trading in a wider set of instruments than we submitted for MAT, but when we looked at the historical data and saw what was most actively and readily traded, that was what sized the list for us. And so I do think
assessing the SEF's technological capabilities is extremely important because in some ways it's telling about what the marketplace may be ready for, and I think when we did it we also looked at all six factors, not just one as any deciding factor on what we were going to MAT. And so I think it's important and, you know, we'll obviously talk further today about ways in which the process can be improved. But we also beyond the six factors looked at hit rates, we looked at quote ratios, we looked at time to respond, time to quote. And so it wasn't just the six factors that were important to us, we wanted to make sure that there were other metrics behind it that made sense.

MR. SMITH: Dexter?

MR. SENFT: I think it's easy for many of us on this table to trivialize the process that occurred a couple of years ago when you at the Commission had to figure out a place to start. I was sitting in this room, possibly in this exact seat, you know, predicting that the MAT rules as
described were going to lead to a race to the
bottom and everything would be MAT’ed and it would
be utter chaos. And exactly the opposite has
happened. So we’ve had consequences that, you
know, some of us after giving it a lot of thought
were just plain wrong about. So, look, I applaud
the Commission for starting someplace, but I
further applaud the Commission for bringing it
back to the table because we now have real
experience in the market, we’ve seen what happens,
we’re in a better place to predict where things
will go if we tweak something, and I look forward
to getting into that dialogue.

MR. SMITH: Thank you, Dexter. Angela?

MS. PATEL: I want to comment on
something Sunil had raised with regards to the
availability of technology. It's all well and for
the SEFs to be ready to trade and for them to have
some connectivity to the dealers, but without
involving the asset managers, customers, CCPs, and
FCMs in the process it's impossible for us to be
ready without chaos on day one. So while there's
not been utter chaos I would argue that the initial launch of interest rate swaps and MACs, spot starting swaps, there was chaos because dealers didn't know how to price them. And as we continue to move forward and we see package relief coming up I think that the package relief that came up in May is a good example of the SEFs having the technology for the swap leg, but not having the technology available for the other two mortgage-backed asset legs that we're supposed to be trading in package space. So right now, Tradeweb actually recently allowed us the ability to trade pools so we could trade pools versus a spot starting swap, and we can trade TBA versus a spot starting swap. We cannot trade CMOs, which were impaired by the fact that they can trade as a package. Moreover at the dealer community they want to price them all as spots because it's easier for their TBA desk. So we have lost the ability to trade a MAC coupon with any mortgage-backed package.

So I think that when we're looking at
the process and what needs to be happening, the
treatment of packages has to be evaluated and
looked at in terms of units of risk, rather than
taking an asset that can on its own trade well in
an electronic environment and then pairing other
assets that are associated with it.

MR. SMITH: Ed?

MR. TSAI: Going back to the original
question of the criteria and the factors and what
should be added, we agree with the point that was
made earlier that all the factors should be
mandatory as part of the consideration; currently
just one is required. I believe most of the SEF
MAT determinations considered all the factors, but
we wouldn't want some situations arise where a
particular SEF decides to just address one and
then that product became MAT.

In terms of the additional factors, the
technical abilities we completely agree with.
Spoke with many dealers and it's not only the
technical capabilities of the SEF themselves, but
also the market participants and the various
market enablers that are part of the swap chain that will determine whether or not the launch of a new MAT product is going to happen on the smooth MAT or not.

Other factors which should be considered and they're elaborations of the already six listed factors, but continuity of the factors across, for example, the particular curve. I think most of the MAT determinations did break up the product set into the most liquid parts of the curve for example, but that should be specified as a requirement just to avoid the situation where a particular asset class in total is made MAT and then the particular parts of it which are liquid then are consequently made MAT. And we think a lot of this can be addressed as was suggested earlier through some formalized public comment process to ensure that all the concerns of the various market participants and the public at large are factored into the final decision of MAT.

MR. SMITH: Thank you, Ed. Arthur?

MR. LEIZ: So going back to Vince's
question about readiness from a technology perspective. I think that there is a lot lost in translation when you speak to specific SEFs about their readiness. And I mean no disrespect to the SEFs sitting alongside me, but I think that they tend to portray a rosy picture of their readiness and the market's readiness. What I would call readiness is having a minimum number of dealers connected to their platform systematically, whether it's via an API, to be able to price the instruments that are coming across real time, copying and pasting, you know, the instruments out into a spreadsheet to bring into their risk system, that's not systematic. That's really just -- might as well be using Bloomberg, you know, IB. So I also think that you need to ensure that the buy-side is connected. What we found is that the resourcing that it takes to get every single instrument -- and it's not just, you know, broad brush IRS versus CDS, it's IRS, it's dollar, euro, yen, sterling, and so on. Each one of those, you have to ensure that messaging protocol matches
what you're intending to trade. It's quite a bit
of testing and it's a lot of resourcing on the
technology side to make sure that we're ready.
And I think that, you know, MAT applications need
to be viewed from that lens as well in addition to
the other criteria.

MR. SMITH: I'm going to go Lisa and
then Vincent and then I'm going to move onto the
next question.

MS. CAVALLARI: I don't think what
Arthur and Angela said can be overemphasized
enough in terms of the readiness, specifically the
buy-side. And I want to sidestep sort of the
issue of whether or not SEFs pose a rosy picture
in terms of what they're capable of for a moment,
just dealing with specifically the readiness on
the trading desk that I am a part of. To Arthur's
point it's just -- even if we're trading
electronically you're talking about bringing
something into a SEF environment where there are
more checks and things that need to be done in
terms of connectivity and making sure that we're
compliant with all of the rules. And that is in
the beginning days -- Angela alluded to the chaos
-- I just wanted to make it through the first six
months of SEF trading without having to deal with
an issue either from the executing broker, the
FCM, the SEF, Russell's own internal trading
platforms. I just wanted one error that I had
already seen before so I knew what to do, which
isn't to say that we didn't get to where we were
all supposed to be going. But it was a heavy
lift. And so anytime we're adding a new account,
a new type of instrument, you know, we go through
the same sort of -- we call it a SWAT team for the
SEF and swap process. That's a lot of acronyms,
but all together it's a lot of people coming
together to make sure that that can move smoothly.
And that's because we're at the ground floor of
where the rubber hits the road, and sometimes that
can be difficult. So we're not in any hurry to
necessarily add instruments to that process unless
they are already liquidly traded on our current
platforms that have desktop real estate and that
we feel are appropriate for that environment.

MR. SMITH: Thank you, Lisa. Vincent?

MR. JOHNSON: I just wanted to quickly address in taking some of the comments by many of the other panelists to show that I think there are a lot of various views, and this is something from ISDA that was addressed in the petition filed last month for more of a pushing to allow market participants, all market participants to participate in the process. I think you hear there are various issues that are addressed in here and I think if there is a process, you know, with the various criteria about the technology perhaps certification from the SEFs on their capability to handle the transactions, and when you take that -- and I'll be pushing for probably at a later point for the Commission to make that decision on the SEF's, but part of that decision making process is to make sure that the public has an ability to comment on and process. And I think the more information that the SEFs can provide during their determination, and that part of that
SEF determination with that information going back
to the Commission and analysis and being released
so the public can comment on it will help the
process.

MR. SMITH: Thank you, Vincent. The
next question is, is how many factors should be
taken into consideration in making a MAT
determination and can you apply these factors if
you're evaluating a group of swaps or an
individual swap?

Stephen?

MR. BERGER: Thank you, Roger. So I
interpret this as a question, and not too get too
into the weeds, but I think this is a question
about the “as appropriate” language in the MAT rule
as well as the fact that the six factors are
joined by the word or and not and, and so I think
that's what folks are focusing on.

So just setting aside for a moment the
question about whether the MAT determination
should apply on the outright or package level,
which is a topic that I think we'll probably get
into a little later, I actually do think it's fair how the language is currently constructed. I don't read the language to say that you could only choose one and run with it. I think you have to consider all six and I think most of the MAT applications that came in did. And I also think that there are circumstances in which there are some that are more relevant than others. So I'm generally comfortable with it. I completely agree with, you know, Vincent's comments here that the public comment process that existed the first time around was vital in terms of refining things and getting it right. It's not clear, and I think we'll discuss this later, what authority the Commission had in that of the comment period to go back and change the MAT applications, but at least the way it panned out, MAT applications were revised subsequent to the public comment process and the market dialogue that ensued. I think it would be helpful to formalize that and I know that there are two different mechanisms that can be used by the SEFs to do their rule filings and
different actions that the Commission can take to trigger that comment period, but it would be worthwhile I think refining the process to ensure that comment period can occur.

Just to kind of give a little more context to the comment I made about, you know, the “as appropriate” and why some factors may in certain instances be appropriate and in others not be appropriate. I think if you look at something like, you know, the first factor talks about ready and willing buyers and sellers, and then the second two are more around historical trading volume. And I think you do have products in the swap marketplace where there are, you know, continuous bids and offers being quoted, either firmly and indicatively and there's an ability to trade the product at any given point in time, even during times of market dislocation, but it could be a product that just happens to not trade, you know, 100 times a day, right. So you do have instances where, you know, there is adequate liquidity, even if there's not, you know, tons of
trades occurring that product each. I think the
bid-ask spread one can also cut both ways.
Sometimes wider bid-ask spreads are indicative of
the fact that there's not enough competition in
the trading of a given product, not that the
product is illiquid. And, you know, the last
criteria that talks about resting firm and
indicative bids and offers, in the swap
marketplace today I don't think there are firm
bids or offers, you know, out there that are
accessible, at least on the D-to-C platforms.
Almost everything is quoted on an indicative
basis.

So that said I think people have already
identified a number of additional factors that are
other ones that could be added as important
considerations, but I don't necessarily favor
changing the "or" to an "and," and saying that all six
have to be surpassed in every instance, and that we
should have objective numerical thresholds for
every single one, et cetera. I don't think that
provides the flexibility we'll need going forward.
MR. SMITH: Thank you, Stephen. And we will go to Dexter and then Tom.

MR. SENFT: We thought that there were two really important factors that needed to be considered we would argue you can drop a couple of others out, so six seems like about the right number. But it's critical to us that the market be resilient. And what that means is that it's important that trading continue if a particular player, be it a SEF or a liquidity provider, has technology problems and is out of the market. So we would like to see the consideration, a very important one, that multiple SEFs trade the product. If at least two SEFs trade the product then the market, you know, can survive the removal of either one of them. And likewise -- and multiple just means two or more. So it's not a high bar, but it's an important one. Likewise those two SEFs should have at least two liquidity providers, so if a liquidity provider goes down there's still a market being made.

MR. BENISON: So just going back to
Steven's comments and Vincent's earlier on public comment, we would agree it's important to have time for public comment on this. In terms of which factors should be considered I think whatever set of factors are finalized and decided on, and I would agree with Dexter that looking at having more than one SEF trading is important -- more than one platform trading is important, you should analyze all the factors. And to Stephen's point, you may analyze one factor and say, you know, while on its face maybe this factor doesn't look like it is too supportive, there may be a reason why in the case of a particular swap that factor doesn't matter as much, but the analysis should be done, and hopefully done with, you know, as much objective data as possible.

And I think, you know, the last point I would make is to the extent you're applying, you know, for one decision across a group of swaps I think you want to make sure that the factors are consistent across that group of swaps so that you wouldn't have, you know, swaps where there was a
variety in terms of each factor of how it applied.

MR. SMITH: Thank you, Tom. This has already been brought up a couple of times including -- Doug mentioned it that there are additional factors that, you know, for example Tradeweb considered when they made their MAT determination. Are there additional factors that should be taken into consideration when making a MAT determination? Tom?

MR. BENISON: Yes, so I think the one was already mentioned about how many platforms is it available to trade on. We think that's important. Well, I shouldn't say available to trade, but is it actually trading on. I also think changes in liquidity through the cycle. So when you're looking at liquidity often times you'll see in a product you might have a spike in liquidity for a certain period of time, and then that liquidity goes away. I'm not sure what you want to have is, you know, a product popping on due to some unique factor that's causing liquidity in that time and then have it
drop off later. So having some understanding of how that's going to -- you know, is it going to maintain that liquidity over time before it's MAT'ed.

And I think the length of time of sufficient trading volume, you know, it's related in the swap or group of swaps in advance of a MAT determination. So, you know, do you have sufficient liquidity through the cycle and has it been active on an electronic platform for some period of time before you MAT it. And people have already talked quite a bit about the operational readiness of SEFs so I won't go through that again, but we think that's an addition.

MR. MCGONAGLE: So there was some commentary in the MAT preamble that talked about if you're looking for liquidity factors, wouldn't necessarily focus on your platform if you're a SEF. They're looking at transactions as they occur on other platforms, but also transactions occurring OTC. And in order to help gauge liquidity, the conversation has been focused more
on what trading we're on on-SEF. I'm just curious
as to evaluation of trading activity occurring
away from the facility historically in making a
determination or submission for consideration that
a product should be MAT.

MR. BENISON: Yes, I would think that's
relevant. And I guess my comments sort of assumed
that you would be looking at overall volume. And
then as a subset of that I think you do want to
look at it and say is there sufficient activity,
you know, on these electronic platforms to then
make the leap to say that it should all move
there.

MR. SMITH: Thank you, Tom. Arthur?

MR. LEIZ: I believe the Commission
asked for public comment on whether a listing
requirement was necessary and I would argue, and
ultimately I believe you determined that it
wasn't, but I would argue that a listing
requirement ahead of a MAT application, meaning a
listing of a product on a SEF ahead of a MAT
application should be a requirement. It would
demonstrate that the SEF is capable of handling connectivity, the instrument, and the trading protocols. And it would also allow the Commission to evaluate, you know, whether this instrument potentially should be MAT'ed. I think it's interesting to look at volume profiles for these products outside of electronic trading, but I would almost argue that, you know, we should be looking solely at the volume profiles of the products as they're electronically traded because that's going to be how we're going to have to do this going forward rather than, you know, OTC bilateral. So I would argue for a listing requirement of -- you can put an arbitrary number on it -- six months.

MR. SRINIVASAN: So just to sort of follow up on your comment. So currently we have a bifurcated market structure. That's the wholesale market and the sort of the D-to-C market. And from what we understand the wholesale market is through voice. And so the electronic market, you can get this decent data which can be acquired.
So how do we sort of assess liquidity? So in the sense -- because in -- we can't see the depth that's there in the voice platform, so you have any thoughts on how do we assess liquidity in the market?

MR. LEIZ: Well, you would have SDR data, right, whether it's traded electronically or voice. So I would think that you would want to have a threshold of when electronic reaches a certain percentage of the aggregate that it's relevant that this instrument has sufficient liquidity to trade electronically.

MR. NGUYEN: I have a question that sort of touches on some of the comments that have been made so far about the technological readiness of the SEFs and the technical capabilities. And, you know, a lot of the commenters, a lot of you have said that something ought to be taken into consideration, but I guess underlying that there are I guess many different things we can look at in terms of assessing, you know, the technical capabilities. And obviously based on your
experience and sort of the transition and perhaps
some of the difficulties that you've face so far,
you know, is there a way to come up with sort of a
concise list of what exactly we, you know, might
look at when we're considering or, you know, a
submission needs to take into consideration what
at SEF is ready to do?

MR. SMITH: Angela?

MS. PATEL: So I don't know that it's
necessarily a list of what they can do, I think
it's a list of where people have to do something
manually. So when the SEF sends something to the
dealer how does the dealer then pull that out of
their system to price it out? Do they literally
have someone keying it in or copying it into Excel
and then moving it back up in so we have the
illusion of electronic execution? And, you know,
what is happening on the buy-side and how is that
getting in to the CCPs? I mean it is designed to
be one big lovely circle, but there are parts in
the chain I think where you need to look at where
it's not flowing smoothly. So I don't know that
-- and maybe you can translate that into a list,

but I think looking at what is being done manually

or pulled out of an automated process is where

you're going to find then I guess bugs or problems

in the system.

MR. SMITH: Thank you, Angela. Ed?

MR. TSAI: And to, you know, add to that

point I think the interface that these SEFs have,

you know, it could be either GUI or API, and

depending on the SEF they may allow access to

different market participants based on GUI or API.

But if it's like a GUI it's going to have that you

have to pull the data manually from the GUI into

whatever system. And then when you have an API

you have to build that connectivity, it has to

operate with your system, and that takes time. So

those are all, you know, things to consider for --

as I said the illusion of straight-through

processing, to look past that and make sure it's

real.

MR. SMITH: Thank you, Ed. Lisa?

MS. CAVALLARI: I agree with Arthur in
the point about a listing requirement in terms of potentially being associated with a number of months before it becomes MAT. I think that is important to help the runway of getting something MAT’ed and actually treated viably on SEF.

I'd also like to point out that it's perhaps instructive to look to where there are examples of things that are not listed for clearing right now and are not MAT’ed, but are actually, you know are being traded on SEF -- I know I mentioned this on the SIFMA AMG FIA asset manager panel several months ago, but EM CDX, we at our firm choose to clear it for certain clients and it's not a mandatorily required cleared contract, it is a standardized contract and we actually do trade, depending on the size, that on SEFs. So you may be surprised where the market is gravitating towards places where I think from a policy standpoint you want it to go, but I would also highlight with that particular comment that it would be very interesting, and this really brings together the narrative that several of the panelists have made
that looking at the data of what's available in the OTC market and what's trading and then comparing and contrasting that with the listed information available in terms of how much electronic trading is going on in a particular product before you get to MAT, it's going to be very interesting to thread that needle and actually get closer to narrowing the subset of potential products that are MAT’ed.

MR. SMITH: Doug?

MR. FRIEDMAN: So I think one thing that when we talk about readiness, and we've seen this with the package relief and frankly the phasing in of the packages, one of the things that we learned in the initial MAT determination was that by designating something for MAT it did not protect it from packages not being MAT. And so it was actually up to the CFTC to take it upon themselves to phase it in that the SEFs couldn't choose to only MAT outrights and not for example MAT packages. And I think that's a big issue because one of the concerns about any additional MAT would
be what it means to the package world, and the
SEFs don't have an ability to say we only want to
MAT outrights, don't MAT the packages that are
associated with those other legs. And in the
absence of that -- and packages trade very
differently obviously and there are a lot of other
different factors how they trade and, you know,
mortgages versus swaps and swaptions trade a
lot differently than, you know, spread trades.
And so the readiness ranges depending on the type
of instrument we're talking about, and I think
it's important for the CFTC to address that
component for any other -- whatever consideration
they make in terms of changing the MAT process.

MR. SMITH: Thank you, Doug. I had a
follow up to your previous statement about when
you made your MAT determination you considered
factors outside of the six factors we had. Of
those factors you considered were there any in
particular that you thought were really crucial
that we should maybe consider being added to the
current factors?
MR. FRIEDMAN: You know, it's hard for us to I guess opine that you should be including hit rate or, you know, quotation ratio, and a quote ration, and time to respond, but we viewed those all as very good barometers of how readily -- actually if you want to talk about buy-side and sell-side readiness, that was a very good indicate to us of how ready they were to trade a particular instrument. You know, again the package piece gets much more complicated, but just for pure outrights, looking at plain vanilla, you know, spot-starting stuff, it was easy to take those metrics and say people are readily trading this. Whether they wanted to do it as an RFQ-to-three, you know, is a whole other sort of series of considerations, but we knew that those were being readily priced and they were being actively traded and those were good benchmarks. If you're looking at voice, you may not be able to obviously measure that as well. And so again I think these were important factors for us to layer on in terms of what we viewed as a responsibility to MAT
responsibly, but I can't tell you that it definitively has to be part of an additional number of factors.

MR. SMITH: Thank you, Doug. Vincent?

MR. JOHNSON: I wasn't sure if it was mentioned, but I was going to throw into the pot that I think it would be helpful regarding the consistent liquidity providers and market makers into that project. I mean when you go out of the non-SEF world, I mean I know in my world sometimes you have those conversations regarding various people -- the reaching out from the exchanges to be market makers in a market just to make sure that particular commodity works. So I think there may be a way in here that could help from a liquidity perspective if you do have some confirmation that you are going to have people providing the liquidity and making the markets.

MR. SMITH: Thank you, Vincent. The next question is, is should a MAT determination take into consideration how other jurisdictions are applying mandatory exchange trading
requirements to the swap?

MR. SHIELDS: I say yes. Currently we have seen that the markets have suffered from fragmentation of the markets. And if the CFTC does not take into account how other jurisdictions are applying the exchange trading requirements, this could lead to further market fragmentations where liquidity could be driven to other exchanges and venues with less restrictive protocols.

MR. SMITH: Thank you, Bill. Ed?

MR. TSAI: So international harmonization of regulatory rules applying to swaps has been not something sought after by the industry. Swaps are an international market, they have been historically, and the concern now is that whether or not regulation will continue to promote global liquidity pool for swaps or break it up. Obviously the benefits of international consistency are reducing operational complexity amongst all the various market participants, reducing regulatory complexity, which leads into operational complexity, having larger liquidity
pools which is better for reducing systemic risk and absorbing shocks. In terms of the MAT requirements or the MAT determination, the international harmonization is probably predicated on a couple of issues that precede the MAT determination question, and one of those is the mutual recognition of the exchange platforms. For example, the mutual recognition of MTFs in Europe for example which there's a QMTF regime that the CFTC put out, the pick-up on that might have been limited. So we would encourage that the CFTC continue to work towards trying to figure out ways to encourage mutual recognition among international regulators because unless you have that mutual recognition then you won't really have the ability to trade on different platforms.

In addition the form of required execution of MAT’ed swaps in the U.S., we have the RFQ-to-three and CLOB requirement for required transactions that have been MAT’ed. I understand that in Europe they may not be going in that direction. So the MAT determination itself, if it
occurs within the U.S., will lead to a very
different type of trading and a restricted type of
trading which may not necessarily apply in other
jurisdictions. And so these are all the factors
that need to be considered before one actually
determines, you know, what are the swaps that are
going to be mandatorily traded on SEF platforms
and to be made consistent internationally.

MR. McGONAGLE: So I have a related
question. If there a determination outside of the
U.S. for products that should be mandatorily
traded in those other jurisdictions whether and
what consideration we should give for trading in
the U.S. for that same product to have that
product mandatorily trade in the U.S.?

MR. TSAI: Well, the requirement to
actually trade on the SEF itself, the impact of it
is going to be determined on what kind of trading
is permitted. So if effectively the platform
allows any form of execution, it probably does not
alter the mode of transaction that much because
here in the U.S. with the CFTC requirements it
limits the mode of execution. It's not exactly apples and oranges, so we would have to really look at just because someone else is doing something in another jurisdiction is it actually equivalent to a MAT determination here in the U.S.

MR. McGONAGLE: So informative, but not dispositive?

MR. TSAI: Right.

MR. SMITH: Thank you, Ed. Stephen?

MR. BERGER: Just to weigh in on this point, I think that in the long-term certainly it's important that we have a mechanism to ensure alignment of the scope of the trading obligations in different jurisdictions, and so I think maybe we'll be getting into a discussion later on about, you know, who else might be able to trigger a MAT determination or to, you know, effect that. So that I think will speak to a need for the Commission to have a role in it as well, and I think probably as we heard earlier in the day, you know, ESMA is the one that's going to be doing liquidity testing in Europe to come up with the
scope of products that are subject to the trading obligation. So there is value in having a mechanism to align that. I think that's a different statement than to say that we should, you know, be waiting in our jurisdiction for others. I don't think, you know MiFID II comes into effect in January 2017 and I don't think anyone is suggesting we should have been waiting that long before starting SEF trading here in the U.S.

I think that just, you know, as a side comment, the narrative around liquidity fragmentation I think is quite overstated. Our funds trade with the same set of liquidity providers on-SEF today as they did off-SEF, you know, two years ago, so there hasn't been any change I think from the buy-side's perspective in terms of who you're able to trade with. Most of the commentary or analysis has been done with respect to liquidity fragmentation, has been very narrowly focused on the interdealer market and has only looked at trades being done on LCH in IRS
and looks at the legal entity, you know, what country the legal entity is incorporated in. So I think that yields kind of a perverse outcome when you're looking at whether liquidity has fragmented or not. It used to be when, you know, if our fund was trading with a given counterparty in the sterling or euro market we were interacting with -- you know, and that trade was being booked to a counterparty entity in the U.S., some organizations are now booking those trades in a London entity. And so what happens is there is now a cross-border trade that's occurring between our funds that are U.S. persons and an entity in London. So there is a cross-border trade happening, but that's not showing up in the data set that's being used to claim there is liquidity fragmentation, because now the interdealer side of that trade is between two entities based in London.

So I do think we have to take a closer look at this liquidity fragmentation narrative and not let it cloud the policies we are pursuing.
And I think there have been constructive solutions in the marketplace that have emerged. I know ICAP, for example, has a duly-registered SEF MTF and it moved all their dollar swap liquidity into that entity which provides a single trading platform for U.S. persons and non-U.S. persons to interact in that marketplace. That's potentially a path forward. I know that's more the dual registration route than the substituted compliance route, but I think there are ways forward that the market is going to gravitate to over the next few years to solve these types of challenges.

MR. SMITH: Thank you, Stephen. Dexter, and then I will go to Ed.

MR. SENFT: I just wanted to be responsive to Director McGonagle's last question. When we compare ourselves to the rest of the world -- let's just assume that's one thing, the rest of the world -- there are two cases where we're not concerned at all. Either neither of us makes it mandatory or both of us do, so we don't care about those cases. That leaves the two others. If we
mandate and they don't, but we're doing it based on a good rule set that the market has weighed in on and in some cases even put quantitative factors on, I think we stand by it. I don't think there's any remorse if we've had a good process and the rest of the world doesn't have that process. So the only case that really is cause for potential concern in the one that you mentioned, which is well what if they're mandating and we're not. It's definitely cause for investigation. Is it because they're market is different and they've got different kinds of participants that we don't have, is it really that illiquid in our market that it doesn't rise to the level. So it's definitely cause for further investigation, but not in and of itself something that I would say is determinative.

MR. SMITH: Thank you, Dexter. Ed?

MR. TSAI: I'd like to just address some of the comments that Stephen made. Completely agree that further investigation of the impact on global liquidity for these -- and cross-border
liquidity in terms of these MAT determinations is warranted. We welcome further investigation of it. I do wonder though that if the observation that there is no liquidity impacts or cross border liquidity impacts maybe from the perspective of end users because dealers and liquidity providers tend to bring their international operations into the U.S. and make themselves available in the U.S., whereas the liquidity providers who are looking to access liquidity on a cross border basis in order to make markets, they may be the ones that are seeing challenges on the liquidity area cross-border wise.

MR. SMITH: Thank you, Ed. Stephen?

(Laughter) The next question is should MAT factors be quantitative in nature? If so, then what are some examples of appropriate thresholds? And I will start with you, Dexter.

MR. SENFT: Okay. So you could probably tell by my last response that we think there can be some thresholds. We wouldn't get carried away. A lot of the factors aren't necessarily
subjective, but there are a few where we think you can put some numbers on it and I've already mentioned two. We think it's really important to have multiple SEFs trading a product. The right threshold there is two. It's really important to have multiple liquidity providers; the right threshold there is two. The only other things we've put numbers on are something -- I'm not sure it's come up yet, but we think that there should be outstanding cleared amounts of the product at the CCPs. This provides a set of natural buyers and sellers. These are people who already have a position one way or the other. They would be looking to increase or decrease that position and equity markets have shown us that the existence of naturals in a marketplace is a good thing. What's the right amount of natural interest? We would say ten times the average daily trading volume. Count one side when you're doing that calculation. And we would also put a threshold on average daily trading volume. We would say at least 100 million notional average per day, look back 30 days for
that determination. Now I would apply that only
in the rates market. The credit market the rules
basically put new series on as soon as they come
out. We think that's perfectly appropriate. So
that 100 million notional average per day is rates
only.

MR. SMITH: Thank you, Dexter. I'm
going to go to Tom and then I'll come back to you, Ed.

MR. BENISON: Thank you. So I would
agree with Dexter that quantitative analysis is
important. We think with quantitative analysis
across the factors, you know, you really get a
grip on an objective way of looking at the
criteria. We hadn't put together the numbers that
Dexter has, but I do think it's important that
when you're coming up with a quantitative analysis
you have a clean set of data that people agree on,
whether that's SDR data or CCP data. I think what
you want to make sure is that the people putting
forth the application, the people analyzing the
application, the people maybe putting in public
comments, if we have that, are looking at the same
set of data to do the analysis so they're not all
talking about sort of a discreet population that
they have somehow -- think is the important piece
of it.

And so the only other point I would make
is that with the credit index, Dexter, I think you
said the rules haven't come on. I don't think
it's the rule that haven't come on, I think it's
the way the MAT determination was made is actually
how it rolls on. But I would agree with you that
that mechanism works.

MR. SMITH: Thank you, Tom. Ed?

MR. TSAI: I'll just add that a common
set of objective data that represents the whole
market, I think that some of the MAT
determinations or MAT requests did in some
instances use data for the particular exchange,
which they acknowledge was a limited subset, but
in order for -- especially if we're going to have
a public comment process, so that the data can be
analyzed by market participants and the public at
large on their own, a common data set I think
would be useful.

MR. SMITH: Thank you, Ed. Arthur?

MR. LEIZ: So I think that you should use some objective criteria for analyzing at least the six criteria that are already in place. I think it should be an “and” rather than an “or,” but the criteria should be somewhat loose so that, you know, to not be overly prescriptive. I also would agree with Dexter that you should have a minimum of two SEFs that are offering a specific product. Where I differ slightly is I think you should have a minimum of five dealers who are market making the product, especially given that you are required to go to three and it gives you sufficient flexibility to choose additional dealers.

MR. McGONAGLE: On the particular SEF that's making the determination, the five -- it should be five dealers?

MR. LEIZ: Five, yes. And just a general comment. You know, I'm not sure we'd be sitting here talking so seriously about MAT if it
wasn't for the prescriptiveness of the trade protocols. I don't mean to digress, but I've been trading OTC fixed income derivatives for my entire career and I've seen a tremendous amount of innovation, both on the product side and the market structure side, and it's discouraging to see that we're going to see no further innovation on the trade protocol side because of the prescriptiveness.

MR. NGUYEN: In terms of looking at quantitative data, is there sort of an ideal period or window, you know, in terms of like what we should be evaluating? It would be three months of SDR data, would it be six months? If anyone could provide some comment on that.

MR. SMITH: Lisa?

MS. CAVALLARI: You potentially might want to think about looking -- maybe it's by product. I'm just thinking contemporaneously here because of seasonality surrounding certain contracts and roll periods. It may be more appropriate for some -- I'm just thinking
commodity -- to look at more than six months of data. But even looking at whether it's a year or two or since data was required to be reported, I think all of that helps to provide information and clues in terms of what's happening in the marketplace.

MR. SMITH: Thank you, Lisa. I will go to Tom, Dexter, and then back to you, Stephen.

MR. BENISON: Yes, I think you want to look at as much data as you have available. And again this kind of get to the issue of looking at the cyclicality of the liquidity in that product, but look at as much data as you have available. You may end up saying well at the beginning of this set of data the liquidity was very low, but we've seen it be consistent for the past, you know, year or 18 months, and so we think it makes sense to have this product MAT, or you may make a different analysis. But I would say to look at all the data you have available and use that in your analysis.

MR. SMITH: Thank you, Tom. Dexter?
MR. SENFT: There's an elephant that walked into the room and I want to make sure that it's recognized. Whatever data set we use, however far back we look at the data, if we have a process for MAT which has taken on objective criteria with actual numerical thresholds, then we have to recognize that in addition to have a MAT process we have to have a de-MAT process for those products that no longer meet those thresholds. So we would propose calling it MUT, made unavailable to trade. (Laughter) And it has a nice ring to it, but it's important that if we go down that path then there has to be MUT'ing, not just MAT'ing.

MR. SMITH: But to follow up on your suggestion, do you have any criteria in mind as to what would make a swap so to speak MUT?

MR. SENFT: Well, I led off saying that I put numbers on four things, so two SEFs, two liquidity providers, ten times average daily volume cleared outstanding, and ten times average daily trading volume, and 100 million notional
average per day. We would look back 30 days or
something simple. Again that's just for rates.
So those are it. If they go above that line let's
MAT them, if they go below that line, let's de-MAT
then.

MR. SMITH: It would be any one of those
factors?

MR. SENFT: Well, that's obviously for
the Commission to ultimately determine, but that
was our opinion.

MR. SMITH: Okay. Thank you. Stephen?

MR. MCGONAGLE: Well, can I just follow
up? I'm interested in the -- is there a concept
of the ability to take a product off of the MAT
listing, does that encourage people to consider
MAT filings if they know that if there is going to
be some threshold analysis, that if it falls below
then it will no longer be required to be on
facility?

MR. SENFT: You were looking straight at
me so I'll assume that was directed at me. I
think that's for the -- I think there are two
subparts to that question. As the process exists today it would be the SEFs would have to answer that question. Would that help break the barrier that seems to exist in making further MAT determinations? We have some SEFs here, let them speak. But I also know that one of the questions you haven't asked yet is who should make MAT determinations or MUT determinations. So I'll just wait until you get to that point.

MR. MCGONAGLE: Perfect punt. Thanks.

MR. SMITH: Stephen?

MR. BERGER: On the data front I thing that this points out is some of the limitations of the SDR data for what we're trying to do in this exercise. So if I just look at the six factors that are currently, you know, on the books, clearly based on the SDR data we can look at the frequency and size of transactions and we can look at the trading volume, which are the second and third factors. You can get some indication of the number and types of market participants, but not with any level of specificity that I think would
be informative there. And then you would get nothing on whether there are ready and willing buyers or sellers, you would get nothing from the SDR data on the bid-ask spread, and nothing on the usual number of resting or firm indicative bids and offers. So we need a data driven approach. I think a lot of these additional pieces of data are available from the venues and could be collected. And I actually don't know to what extent they are and/or if they are, are made public, but there's certainly a lot more transparency that we could get into what's happening in this market and that we could make available and that I think would inform our policymaking decisions. And starting with figuring out what data we can collect from BM market participants, the trading venue, or others to have a good view of each of those six factors I think is an excellent start.

MR. SRINIVASAN: So I had a question on this solution that there should be at least five market makers on the SEF that is making the submission. I'm concerned about whether there
will be sort of an entry barrier for a new SEF, right. So the sense that if I'm looking at Sunil here, he's new to the business, he doesn't have an existing order flow, and how do you go about --

I've been in the business of developing new markets in that trade space and there's a chicken and egg thing, right. So firms will say, you know, call me when the future space open interest hits 5000 contracts, okay. So there is an issue of, you know, on one hand I won't get firms signing on as even buy-side connectivity platform and sell-side also saying as the market maker, where the does the customer flow that's coming in, so I don't have an existing business, I don't have order flow, so how do we sort of -- I'm concerned about this five market maker rules as preventing -- sort of basically setting up an entry barrier to the execution business? If you could talk about that.

MR. LEIZ: So the SEF landscape is competitive obviously and there is some innovation in terms of their platform, the way they're
connecting, so I would say that if a platform is
decent and attracts the interest of the buy-side
and we want to trade on it, I'm going to be vocal
about that and I'm going to let my dealers know
that this is a platform that I want to start
trading on. You know, it's just a natural
evolution of how things work in our marketplaces
that, you know, there is buy-side and sell-side
interests and, you know, at times the sell-side
drives the interest and at times, you know, the
buy-side drives the interest. I would say though
that if you have too few dealers on there you're
handing them a virtual monopoly potentially on a
MAT'ed product, and their ability to market make.
So I personally would rather have more choices
than less when dealing with a specific instrument
on a SEF.

MR. SRINIVASAN: Sunil, do you care to
comment?

MR. HIRANI: So, you know, we had the
luxury of starting with zero. So that was a nice
round number. And so if there was a threshold of
five, you know, we would have never been able to
convince our first one or the second one or the
third one to ever do a transaction. So now we're
up to 17 dealers. As I said before we're still
missing two out of the top five dealers, and
that's actually okay because we've been able to
originate inquiry and to have just one dealer
respond when it was, you know, not a MAT
instrument. So I think, you know, as I think I've
already alluded to, there are significant
insurmountable barriers to these markets, and
there are only two legacy providers. And in 25
years, no new entrant has been able to make it into
the swaps market, obviously. So I think raising
the barrier, so that's really part of the reason
we don't want to file an additional MAT
application, because it will require the buy-side,
the dealers, everybody else to make further
investments in technology which will further delay
the onboarding process, right.

The other comment I was going to make, I
believe it was Dexter's comment, looking at data
which will mean that knowing your products, you
know, can be launched right away on technology.
So I think that's a bit of a design flaw. So
we've been able to convince people one by one.
And there was a time when were we able to do a
transaction with less than five dealers on our
platform, and that was actually okay.

MR. SMITH: Thank you, Sunil. Wally, I
saw you had your placard up. Then I'll come back
to you Dexter, and then I'll circle back to you,
Vincent, for the original question.

MR. SULLIVAN: Thank you. Kind of,
Sunil, you know, our system sort of the newcomers,
our real opportunity would be if and when, you
know, CLOBs take off. And again for us we look at
it as, you know, we would be willing to do further
MAT filings if we had the support, but we actually
see it as it's directly linked to this post-trade
name give-up legacy as it applies into CLOBs
because it's very difficult to gain any critical
mass in interest from the buy-side because, you
know, what it does is it undermines the interest
in anonymity. And so because of that it's been very difficult to kind of get a foothold.

MR. SMITH: Thank you, Wally. Dexter?

MR. SENFT: Yes, just I think there is some clarification that needs to be made. One to the point raised by Sayee and one by Sunil. It's very, very important that the market encourage innovation and competition. So whether the right number for the number of liquidity providers is two or five, there is probably some number that's right, and what I'm saying is that that's the number that somebody needs to have to file a MAT determination. Now if trueEX only has one liquidity provider, that's okay. Once it's MAT, it doesn't mean every SEF has to have two liquidity providers, it means that somebody did at least -- well, again in the interest of market resiliency there ought to be two that have two, or there ought to be two that have five, whichever number the Commission thinks is right, but that doesn't mean everybody has to have two or five. So we don't want to discourage the new guys, the
trueEXes from coming in. Parenthetical comment, trueEX is new to the market, Sunil is not. (Laughter) The other thing is that we don't want to stifle new product innovation so yes, I would say we need some historical data to make a MAT determination, but not to innovate with a new product or to list it on a SEF.

MR. SMITH: Thank you, Dexter. Vincent?

MR. JOHNSON: I just wanted to go back to Director McGonagle's point about the --

MR. MCGONAGLE: Let's just go with Vince. Sorry, Vince. (Laughter)

MR. JOHNSON: Okay. About the removal of the MAT determination. A little different from Dexter and I'm just going to say -- and again this has been addressed in the ISDA petition -- but the thought about the process was that not only can a SEF, but also SEF users could actually make a request that a MAT determination be removed. And then, rather than some threshold amount, our thought was that it should be based on the initial criteria. So whoever makes that request would
have to provide detailed explanation based on the
original criteria for that removal process. And
from the theme that we have again thought that
should be subject to public comment also.

MR. SMITH: Thank you, Vincent. We'll
now move onto I think the topic that will be hotly
debated as to who should make the MAT
determination.

The first question, and I'll come to you
first, Bill, is who should initiate a MAT
determination.

MR. SHIELDS: Well, certainly we think
that the execution venues have the most experience
in that area seeing what goes through them and how
they've been providing execution, so we think that
it's probably best left with the execution venues
to make the initial MAT determination, which would
then lead to the public comment period and
ultimate determination by the CFTC.

Just one thing I'd like to comment on
which has kind of been touched on by a number of
the other panelists is, you know, the WMBA firms
have generally been successful based on the technological innovations it's brought to the market in helping provide liquidity. One of the concerns we have is that once a product is determined to be MAT that we're actually cutting off potential modes of execution. But we really think we should be actually promoting the technological innovations and bringing that to the market. So that's one concern we had when something is actually determined to be MAT.

MR. SMITH: Thank you, Bill. Lisa?

MS. CAVALLARI: So at the risk of saying something potentially unpopular here (laughter), I do think the CFTC has a role in this. If you have a role in clearing, then certainly a role in the MAT determination. And I know that suggestion was made, you know, in a number of comment letters obviously before the actual final rules were published -- by ICI and SIFMA AMG, just two particular examples. But I sort of -- and at the risk of creating more bureaucracy or more work than potentially anyone thinks it's worth -- to
acknowledge what other panelists have said, it's really I think a collaborative process perhaps with something like a CFTC -- each have power. I mean I think the exchanges, the DCOs, the DCMs, the buy-side, the sell-side, and the SEFs themselves can probably together make an informative decision on that.

But I would also have to remark that perhaps examining how we got here in a tip to Commissioner Giancarlo's White Paper on SEFs, you know, I'm working under the operating constructs that we have in place now, like how can we make what is in front of us better. That's not to discount other people's innovations for how to sort of rethink what a better way to do this process could be, but based on what we have now, I do think the CFTC has a role as well as other industry participants in helping to make that determination. And I wouldn't necessarily be -- again 17 months in I'm not necessarily convinced that we aren't where we're supposed to be right now. And perhaps it's too early to come to a definitive
MR. SMITH: Thank you, Lisa. I will go to Arthur, Dexter, Wally.

MR. LEIZ: So there are two routes that a SEF can attempt to MAT something, it's 40.5 and 40.6. Under 40.6 I would remove the self-certification process, and in doing so, then you might as well just remove 40.5 since they become very similar. 40.6 allows for the public comment which I think is crucial, but, you know, to Lisa's point, I do believe it's a collaborative effort. I think that potentially, and I don't want create more bureaucracy, but a MAT determination advisory committee made up of market professionals to help you evaluate the merits of the application in terms of the criteria, technological readiness, connectivity, et cetera.

MR. SMITH: Thank you, Arthur. Dexter?

MR. SENFT: My answer is contingent upon the existence of the MUT process, so just put it in that context. But if we have the ability to go both ways then I think it's appropriate to open
the MAT'ing process and the MUT'ing process along with it. We would say -- well, look, the spirit is you want somebody who understands the market, has access to the right kind of information, to make the determinations or at least to propose MAT'ing. We think there are three of those. There is the SEFs themselves, which we already have, there is the Commission itself, and there is a -- let's call it the trade associations recognized by the Commission. So, you know, the obvious candidate there would be ISDA, there are perhaps some others, but we think that any of those have the capability to do, you know, rational proposals.

MR. SMITH: Thank you, Dexter. Wally?

MR. SULLIVAN: Well, I just don't -- I think that it's not necessarily an either/or, whether the CFTC or the SEFs, I think it should be both. You know, I'm kind of looking forward and if competition is released along with anonymity in CLOBs, you know, my suspicion is that firms like a Javelin may be prompted to MAT at a faster pace
than the CFTC potentially would. And so I would
not want to give up that ability.

MR. SMITH: Thank you, Wally. Ron?

MR. STEINFELD: Great, thank you, Roger.

Given the discussion we've had so far regarding
potentially moving to a harder quantitative
analysis when it comes to determining whether a
swap should be MAT’ed or not, the discussion kind
of falls away. It really doesn't matter as much
who is making the application if we're going to
look at a harder set of criteria in determining
whether the swap should be MAT’ed or not. Given
that it would seem to me to be more appropriate
that the CFTC could the arbiter of what swaps
should be potentially MAT’ed or not given that if
we're just comparing the trading activity, the
liquidity profile of the swap to a certain preset
list of criteria, whether the SEF is responsible,
the CFTC is responsible, the swap MATs itself.

MR. SMITH: Thank you, Ron. I'll come
to Angela, Sunil, and then Stephen, and then Tom.

MS. PATEL: So I agree that a swap can
MAT itself, but all of the infrastructure needed
to support the swap and implement it in our
portfolios does not happen on its own. I am a big
fan of removing the self-certification process and
I'm a big fan of being able to control the
portfolios and the funds that are entrusted to us.
So having a SEF able to move things along quicker
than perhaps the Commission would like to actually
makes me very uncomfortable because there are so
many other people involved and so many other
parties involved. And at the end of the chain,
you've got the asset managers who are simply
trying to act as fiduciaries for the people who
have entrusted their monies with us, and are
hoping that we can make the right decisions on
their behalf. And having our tool box adjusted or
having our opportunities set removed or impaired
or crippled because of the actions of a SEF are
very troubling to me.

MR. HIRANI: So, you know, I mean if you
think about what happened the last time we had the
flurry of MAT applications, I think looking at
that and seeing what resulted, which I think a lot of us on this panel would agree was the right outcome, trying to formalize that in essence which was the buy-side, the trade associations, the dealers, and the venues had an opportunity to interact with each other, had an opportunity to give feedback to the Commission. And one possible suggestion would be one -- you know, I'm going to leave aside who can MAT -- but whoever those group or groups can MAT, you know, there should be an open public process that -- you know, put on a board what are the criteria that should be considered and let there be an open public debate about the merits of the application. So everyone who has a vested interest, not just the venues, but the people who are the managers and the market makers also have an opportunity in a public forum to debate it. And like a lot of things it will become pretty obvious if something should be MAT or not. And in essence that's what happened in a variety of serial meetings the last time.

Thank you.
MR. SMITH: Thank you, Sunil. Stephen?

MR. BERGER: So I think going forward it would be advisable to have both a top-down and bottom-up approach to the MAT determination process. I think that's going to be the most sustainable mechanism for the long-term. We have that process in place with respect to the clearing mandate today and I think it would make sense to have some parallel process in place. I think that still allows the SEFs to play the role of being, you know, the ones closest to the trading, also involved in trying to innovate, you know, list new products for trading and bring volume onto their volumes. So it would allow that to still occur, but I think it provides, you know, the Commission the ability to weigh in appropriately as well. I think in both cases I agree there should be a public comment period, an appropriate checks and balances. I think the Commission having the ability to initiate a top-down MAT determination, where appropriate, is going to be important for international harmonization, which I alluded to
earlier in terms of ensuring we have a consistent
scope globally of what products are in scope for a
trading obligation.

I also think that an adverse consequence
of the current process is that the inability to
control the MAT process creates this link between
the clearing obligation, the trading obligation
that some people are quite frightened of. And so
that creates I think a negative force on the
further expansion of central clearing which I
think is something everyone around this table
agrees has gone well and may even warrant further
expansion. We saw it manifest itself in the
discussion last fall around FX NDF clearing and
whether or not FX NDFs are appropriate for
clearing or not aside, I think there's a number of
additional currencies and interest rate swap
complex that we clear today and are, you know,
completely appropriate for the clearing obligation
to expand, you know, to cover, but I don't think
people are necessarily are ready to trade those on
SEFs, and so I think there's a reluctance to
further expand the clearing mandate because there
is no way to ensure that a SEF mandate couldn't
get triggered 30 days later because of, you know,
some of the factors I alluded to already. So I
think sustainably for the long-term, the top-up,
bottom-down approach to clearing mandate could
have value for the MAT process as well.

MR. SMITH: Thank you, Stephen. Tom,
and then I'll come to you, Doug.

MR. BENISON: So I think as long as we
have a MAT process, someone is going to have to
make the determination and I think -- someone is
going to have to initiate it and then someone is
going to make the determination. I think in terms
of initiating it, you know, I don't feel very
strongly that you have to limit it to SEFs being
able to initiate it, you could have, you know,
bottom-up or top-down, you could open the process
to industry organizations. I think though
fundamentally you're going to need to have a SEF
there to support it. So that's why I think it
really is going to start with SEFs no matter what
you sort of have as the entire set of entities
that could make a proposal. I do think it's
important that whatever proposal is made the CFTC,
you know, makes the final determination, it
doesn't just rely on self-certification.

MR. SMITH: Thank you, Tom. Doug?
MR. FRIEDMAN: I may be jumping ahead
because of where the questions go, but this is the
second MAT Roundtable we've had and it's
obviously been a very controversial topic really
from the beginning. But I think it's also
important to recognize where we are in the
process. I mean I think at the time that MAT
determinations were made initially the CFTC may
not have been in a position to have the data or
the information to have done if you will the top-
down type of analysis. And while there have
obviously been a few bumps in the road, but the
process has been reasonably successful, there is a
reason why we're here today, because questions
still persist. And I think with that in mind, you
know, we are supportive of the idea that there is
-- it's parallel to the clearing process we think. While it worked with -- you know, reasonably for the SEFs to do it, all the concerns about either misaligned incentives or conflicts of interest, or just potential opportunities for a race to the bottom if there's commercial influence here, we think that at this point in the process it's more appropriate for the CFTC to follow the clearing process for MAT, which is take what the SEFs are listing on their platforms, that's essentially the pool from which the CFTC can choose, then they can put out for comment and they can get, you know, very -- I'm sure they will get very ample comment back in terms of both the objective criteria, what the market is ready for and what they're not, and they go from there. And so I think we are at a different point in the lifecycle and I think the CFTC has the ability to step in. And I think from a resource perspective -- because I know there are concerns from the CFTC's perspective about, you know, further resource issues -- but it's not as if this is going to be happening all the time. I
mean think about it, you did a clearing
determination, it's not as if, you know, this is
something that you're going to have to do all the
time. And we think that it's not going to be
perhaps the strain on resources that has been
articulated. And so we're supportive at this
point of moving it on to the CFTC making that
determination with the appropriate public comment.

MR. SMITH: Thank you, Doug. Because of
time constraints I'm going to skip a little bit
further ahead. And one of the topics that has
come up a fair amount is the topic of the timing
between when a clearing determination happens and
when a MAT determination can be made. And I just
wanted to -- I'll kick it to you first, Angela,
and then we'll go to Vincent.

MS. PATEL: The process for a clearing
determination and the execution determination are
separate and they need to be separate. There are
a number of things that have to happen. To clear
a trade is in hindsight a relatively light lift.
Just submit a trade that you've executed for
clearing. But to get the pipes and infrastructure built for the actual execution is significant and it requires a number of parties and it requires, from the beginning of the chain all the way back, code being released down so that everyone can test it and make sure that we've got straight through processing or the illusion thereof. Just because a swap can be cleared does not mean that it can be electronically executed under the mandate. You know, certainly the idea of sufficient liquidity for the swap is an important one and I think particularly as we look at the assets that have been impaired due to the package linking, that's something that has to be considered in looking at the liquidity of the actual packages before they are forced into that environment. And again I think that, you know, we've seen the packages impacting or being impacted by the execution determination. The first series of packages that went were very clean. They were spot swap versus spot swap, it was pretty slick. We started to see it fall apart a little bit with the MBS agency
swap. I do believe very strongly that in November we are going to see a massive impairment of a risk tool happening. And I think that as we look into next year, as we look at swap versus swaption, that is another very important tool that we use that should not be automatically included in the execution determination simply because the associated swap is made available to trade.

And that wasn't exactly responsive, but I think I made my point.

MR. SMITH: Thank you, Angela. You did. Vincent, and then I'll come to you, Ed.

MR. JOHNSON: We feel in agreeing with some of what Angela said, with the separation, but we feel that most importantly is to give the market participants their time to adjust their business processes, so you have to look on for that. But our view is that once the clearing mandate is made the swap should be subject to the trade execution requirement based on the compliance rate, the clearing requirement compliance schedule. So 60 days after the
applicable deadline -- there's also pushing for
the fact that once the Commission -- pushing for
the Commission to make an order on these
determinations, and then 30 days after the
Commission makes an order on that determination.

MR. SMITH: So you would tie it to the
implementation schedule of the mandatory clearing
requirements. So for different participants you
would have different times under which the trade
execution requirement could be implemented or
would you say go to the outer bounds of the
clearing requirement and then apply -- allow for a
trade execution requirement to be applied?

MR. JOHNSON: I wasn't clear on your
question, so.

MR. SMITH: So, under the clearing rules
there are different times for implementation
depending on what type of market participant you
are. So my question is, is do you tie the
implementation of the trade execution requirement
to the type of participant you are, or do we just
have a blanket and go to the last possible date
for the smallest participants?

MR. JOHNSON: I guess we look at it from the latter part of the compliance schedule. So following the compliance schedule or within the 30 days of Commission issues an order on that part.

MR. SMITH: Thank you, Vincent. Ed?

MR. TSAI: So to just address the last question, I think that it would make sense to wait until the Category Three goes effective for mandatory clearing before you start the clock on the grace period for allowing a MAT submission to be permitted simply because ultimately you're looking to bring all the trading into one like forum of the various exchanges that are going to offer the MAT swaps. And so it would make sense to have all of the market on that forum together simultaneously rather than to split it up, because that would obviously have an impact on liquidity.

In terms of the package point that was raised, we completely agree. I think that many of the MAT submission back when rates and credit indices were made MAT they had requested packages
to go through a separate MAT determination and we would wholeheartedly support that the packages just trade on completely different criteria, different dynamics, and they should be assessed on their own rather than just looking at an element within the package.

Then lastly, in terms of timing, we support the ISDA petition, although we would say that perhaps even a longer grace period would be useful for the industry in terms of the time period from the mandatory clearing determination to the MAT effective date, say 180 days might actually give enough time for the industry to really work through all the kinks. And then also from the period between the MAT determination and the effectiveness of MAT we would say 90 days would be ideal.

MR. SMITH: Thank you, Ed. Arthur and Tom, I know you have your placards up, but due to time considerations, we're going to move ahead because we want to give each of you an opportunity to respond to I think the last topic that we're
going to cover, which is if hypothetically the Commission were to make changes to the MAT process, what is the most essential change the Commission should make and why. And I'm just going to start with Tom and circle around. We do have about 15 minutes, so if you could keep your responses fairly brief it would be appreciate.

MR. McGONAGLE: So that's like a minute a person Roger. (Laughter)

MR. BENISON: Simply to say I don't know that there's one change you can make. I think you have to sort of -- you know, you want to move the construct more to a construct similar to what's used for mandatory clearing.

MR. BERGER: I think we have to take a hard look at where we are now right now and why. And I think right now we're at a point where market discipline has resulted in there not being any further MAT submissions since the initial round of 18 months ago or something like that. And I think you should look to the reasons of why that has happened. I think part of it is there is
continuing unease about how any expansion of the
MAT scope is going to affect certain package
transactions. That's not an argument to say that
no package transaction should be MAT. I think
spreadover treasuries as well as a lot of curves
and flies are completely able to trade on SEF, but
there are others like invoice spreads and swap
versus swaptions coming down the pipeline where
there is a huge amount of uncertainty about
whether SEFs will be able to support them.

Another reason there is still I think
market discipline restraining any expansion of the
MAT scope is that, you know, for all the talk
about how we should have more methods of execution
available, I mean of the ones that are currently
available the buy-side is still entirely
restricted to one, which is RFQ-to-three. So
until we think about how we can actually embrace
impartial access and make more of the SEFs that
are out there more accessible to a wider range of
market participants, I think there is a kind of a
question, well why are you going to MAT more stuff
if it's still -- if I'm basically confined to trading on one of two venues.

I think people have made some great observations for the need for the existing SEF community and, you know, the liquidity providers who are connected to further enhance and automate the processes that allow them to respond to requests for quotes and to provide pricing back and to make sure that's done in a more seamless fashion. I think a number of SEFs still have bizarre workflows in place that mean that trades can get executed and sit there for hours before they actually get, you know, submitted for clearing. So there is still further clean up that needs to happen in the post trade process.

And so these are the factors that I think are restraining it, notwithstanding the fact that the implementation of SEF trading so far I think has been a success, it has brought a lot of improvements to how we do interact in the universe of products that are currently subject to the MAT scope and to the current MAT determination. I
think those are the factors that we need to solve
because those are the factors that I think are
leading the market discipline that's restraining
any further expansion for the time being.

MR. SMITH: Thank you, Stephen. Lisa?

MS. CAVALLARI: So I would just briefly
keep a sort of a theme that -- and that goes to
the ramp-up time for the buy-side to be able to
accommodate what any one particular change is
being contemplated, giving the buy-side enough
time to connect, to get up to speed
technologically and not make the assumption that
everybody is trading electronically already,
things that are listed, things of that nature,
because I think the best outcome is one the buy-
side is ready to participate on all fronts. And
that's what we strive to do.

MR. SMITH: Thank you, Lisa. Doug?

MR. FRIEDMAN: I think in addition, and
just restating, we think that the CFTC can take
over the process in terms of paralleling the
clearing process. I think it's important, giving
what we've learned over the last couple of years, that the CFTC also has to give itself enough tools to address the market feedback they're getting. So whether it's, you know, all the market commentary on readiness or how packages trade or various things, so that if the CFTC has the tools to address those market needs, and whether it's phasing, whether it's no-action relief, or whether it's if they keep the process as it is in terms of SEFs, submitting that they've got the appropriate tools to address what might be somewhat over-MAT'ing of product.

MR. SMITH: Thank you, Doug. Sunil?

MR. HIRANI: So what's interesting is that we've had this panel and not one person has said hey, I want to do another MAT application. So I think that's a bit telling. So I think the one suggesting -- I guess two suggestions I would make is, one is to allow market participants to also make a MAT application. And I'll repeat an earlier suggestion that I made is to then have a public open process where the criteria can be
discussed for its merit and then have, you know, the Commission outright, or the Commission plus market participants, you know, in essence codify the MAT application. And I'll echo what Stephen said as well, there are some fundamental infrastructure and package issues that are still outstanding. I would urge the commission to spend more time on rectifying the infrastructure and package issues before trying to be a catalyst for further MAT applications.

MR. SMITH: Thank you, Sunil. Vincent?

MR. JOHNSON: It's been said, but basically that SEFs should have to address all the criteria, that should be submitted to the Commission, Commission seeks public comment, then the Commission makes the decision on whether it's MAT-able.

MR. SMITH: Thank you, Vincent. Arthur?

MR. LEIZ: So I think I said most of them, but I'll quickly list them. Put some criteria around the six criteria, some objectiveness, potentially add three more, minimum
number of SEFs, minimum number of market makers and, you know, their readiness from a technology perspective, remove self-certification, contemplate, you know, a MAT determination advisory committee, have a minimum listing period, and then I also think that packages need to be addressed because I don't think it was contemplated, or at least it wasn't contemplated early on that by the virtue of MAT'ing a specific instrument that anything you may trade with that specific instrument is all the sudden MAT'ed as well. So, you know, you should contemplate looking at a package as an integrated unit and making the determination as to whether that integrated unit meets the criteria to be trading on a SEF. And it's particularly concerning around the November no-action relief pertaining swap versus future. There is not a platform in the world that is currently trading these, yet we have -- in reality only one can do it, but this is expiring in four months, and I'd say that the train has already left the station. These will
not be trading come November.

MR. SMITH: Thank you, Arthur. Angela?

MS. PATEL: I agree with everything Arthur said and I'm going to just further say that what you will see happening in November is people moving off-SEF and creating bespoke swaps to trade versus futures so that they can go ahead and continue to implement risk and move risk around effectively. And I'm a huge fan of a committee being formed to help ease the burden of the Commission in evaluating everything. I mean I think that you've got a fair number of experts around the table who would be happy to help in looking at -- or I certainly would -- in looking at and evaluating things that come in and giving you an honest, fair opinion as to the viability of them.

And again just the idea of packages, I think that we're still far enough ahead of two very critical relief periods expiring and that there is still enough time to do what I would call the right thing for the marketplace.
MR. SMITH: Thank you, Angela. Dexter?

MR. SENFT: Make the process more objective, bring on the MUTs (laughter), and allow the MUTs to address the package trade problem.

MR. SMITH: Thank you, Dexter. Bill?

MR. SHIELDS: Certainly allow for more flexible modes of execution for MAT transactions. And in regards to the package transactions, look at allowing for exemptions from the requirement of execution if the MAT leg's price is contingent on the other legs of the transaction. This would be similar to the QCT process that's use by the SEC where if it's qualified contingent trade, based on a certain number of criteria the trade can get executed but not get broken up which would allow for a more efficient execution and proper hedging.

MR. SMITH: Thank you, Bill. Ron?

MR. STEINFELD: Thanks. We believe the CFTC is better placed to initiate the MAT process based on hard quantitative criteria, but preserving the ability for SEFs and DCMs, as well as the general public, the buy-side, the sell
side, industry associations, is imperative. SEFs should absolutely play a role in assisting the CFTC with their analysis based on their trade data, based on their tech readiness, based on connectivity. And just to add, we believe that a less prescriptive trading methodology for required transactions would also help out the overall process.

MR. SMITH: Thank you, Ron. Wally?

MR. SULLIVAN: I think the CFTC should focus on releasing competitive forces at the core of the execution process. And again it's around this issue of anonymity. We feel it's the key to level the playing field when attracting, you know, these new diversified and uncorrelated liquidity into this market which is sorely needed. And also simultaneously that's what's going to encourage firms like Javelin to continue to MAT.

MR. SMITH: Thank you, Wally. Ed?

MR. TSAI: So there are obviously a lot of great practical ideas. I won't repeat those. I do want to just emphasize the policy objective
driving the MAT determination process, why we're
discussing this.

So we know that when a MAT -- products
mean MAT it means the modalities of trading it are
restricted. Whether or not those created
liquidity impacts and alter the nature of the
trading must be carefully assessed. That's why
there's all of this discussion around putting a
more formalized process around the MAT
determination. We also would like to make sure
that everybody is aware that when you make a MAT
determination, we must leave space for the other
part of the swap market that permits customization
of swaps to meet the needs of market participants.
Those often times cannot be traded on an exchange
effectively. So we want to make sure the MAT
determination doesn't impair the ability to create
customized swaps for the needs of the market.

And I think that a quote from
Commissioner Giancarlo's White Paper is worth
noting, “swap products move to platforms generally
after they are successful, not before.” So that's
really a touch point in terms of how the MAT process should run.

MR. SMITH: Thank you, Ed. With that I will bring the Roundtable to a close. I'd like to thank all of our participants for taking time out of their busy day to be here with us. I would also like to thank Chairman Massad, Commissioner Bowen, and Commissioner Giancarlo for taking time out their schedule to be here with us today. If any of you have additional comments we do have a public comment period of 30 days following this Roundtable on the CFTC website. Again, thank you for your participation and attendance.

(Whereupon, at 01:58 p.m., the PROCEEDINGS were adjourned.)

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

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