

UNITED STATES OF AMERICA
COMMODITY FUTURES TRADING COMMISSION

PUBLIC ROUNDTABLE:
THE MADE AVAILABLE TO TRADE PROCESS

Washington, D.C.
Wednesday, July 15, 2015

1 PARTICIPANTS:

2 Welcome and Opening Remarks:

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

5 Panel 1 - Mandatory Exchange Trading Requirements
6 in Various Jurisdictions:

7 Moderator:

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

10 Panelists:

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

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

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

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

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

20 Moderator:

21 SAYEE SRINIVASAN
22 Chief Economist
U.S. Commodity Futures Trading Commission

1 PARTICIPANTS (CONT'D):

2 Panelists:

3 DR. DARRELL DUFFIE
4 Dean Witter Distinguished Professor of Finance
5 Graduate School of Business
6 Stanford University

7 DR. JOHN HULL
8 Maple Financial
9 Professor of Derivatives and
10 Risk Management
11 Joseph L. Rotman School of Management
12 University of Toronto

13 AMIR KHWAJA
14 Chief Executive Officer
15 Clarus Financial Technology

16 KEVIN McPARTLAND
17 Principal, Greenwich Associates

18 Panel 3 - Industry Assessment of the MAT Process:

19 Moderator:

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

23 Panelists:

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

27 STEPHEN BERGER
28 Director, Government and Regulatory Policy
29 Citadel LLC

30 LISA CAVALLARI
31 Director, Fixed Income Derivatives
32 Russell Investments

1 PARTICIPANTS (CONT'D):

2 DOUGLAS FRIEDMAN
3 General Counsel, Tradeweb Markets

4

5

6 SUNIL HIRANI
7 Chief Executive Officer, trueEX LLC

8 VINCENT JOHNSON
9 Head of Regulatory & Policy Affairs, BP Integrated
10 Supply and Trading
11 Representing the International Swaps and
12 Derivatives Association

13 ARTHUR J. LEIZ
14 Managing Director, Goldman Sachs Asset Management

15

16 ANGELA M. PATEL
17 Trading Operations Manager, Fixed Income &
18 Derivatives Investment Management
19 Putnam Investments

20 DEXTER SENFT
21 Managing Director, Fixed Income Electronic Trading
22 Morgan Stanley

WILLIAM SHIELDS
Chief Compliance Officer
GFI Swaps Exchange LLC
Representing the Wholesale Market Brokers
Association

RON STEINFELD
Chief Compliance Officer, MarketAxess

WALLY SULLIVAN
Chief Executive Officer, Javelin Capital Markets

22

1 PARTICIPANTS (CONT'D):

2 EDWARD TSAI
Director and Counsel, Credit Suisse

3
4 Other Participants:

5 CHRISTOPHER GIANCARLO
COMMISSIONER, U.S. Commodity Futures Trading Commission

6 VINCENT MCGONAGLE
Director, Division of Market Oversight
U.S. Commodity Futures Trading Commission

7
8 DAVID VAN WAGNER
Chief Counsel, Division of Market Oversight
U.S. Commodity Futures Trading Commission

9

10

11 * * * * *

12

13

14

15

16

17

18

19

20

21

22

1 P R O C E E D I N G S

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

14 With that I'd like to turn this over to
15 my colleagues, Roger Smith and Nhan Nguyen, who
16 have been those involved in setting up this Roundtable
17 .

18 MR. SMITH: Thank you, Nancy, for your
19 kind introduction. Before we begin this meeting
20 I've been asked to note for the record and briefly
21 remind the Commissioners that this is an Agency
22 Roundtable and not a Sunshine Act meeting.

1 Therefore it is important that Commissioners
2 refrain from deliberating between or amongst
3 themselves on the topics or issues discussed in
4 today's meeting because such deliberations would
5 result in a Sunshine Act violation and also result
6 in potential APA issues. However, as in the past,
7 Commissioners are free to ask questions of the
8 Roundtable participants and also request
9 clarifications on the points made today. Thank
10 you.

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

21 MR. SRINIVASAN: Sayee Srinivasan, and
22 I'm the Chief Economist.

1 MR. NGUYEN: Nhan Nguyen, Division of
2 Market Oversight, the CFTC.

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

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

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

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

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

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

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

20 MR. SMITH: Thank you. To quickly
21 review the format we'll have each of the panelists
22 present their jurisdiction's approach to mandatory

1 exchange trading, and DMO staff may have a few
2 clarifying questions after the presentations. To
3 begin with I will turn to my colleague, Nhan
4 Nguyen.

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

12 So to start, the trade execution
13 requirement mandates that swaps subject to the
14 clearing requirement be executed on a swap
15 execution facility, a SEF, or designated contract
16 market, a DCM, unless no SEF or DCM makes those
17 swaps available to trade or generally where the
18 transaction would be subject to a clearing
19 exception. The MAT process, which has been set
20 forth in the Commission's regulations, allows a
21 SEF or DCM to submit to the Commission an initial
22 determination that a swap is available to trade

1 and therefore should be subject to the
2 requirement. To submit a determination the SEF or
3 DCM must first list or offer the swap for trading.
4 Determinations can be submitted to the Commission
5 through one of two processes, a self-
6 certification process or a rule approval process.
7 Each determination or submission must consider one
8 or more of the following factors with respect to
9 the swap: One, whether there are ready and
10 willing buyers and sellers, two, the frequency or
11 size of transactions, three, trading volume, four,
12 number and types of market participants, five, the
13 bid ask spread, and finally, the usual number of
14 resting firm or indicative bids and offers.

15 In terms of the standard or review of a
16 submission, a MAT determination would be denied if
17 it is deemed inconsistent with the Commodity
18 Exchange Act or the Commission's regulations, and
19 such a finding would generally depend upon the SEF
20 or DCM's analysis, the determination of factors.
21 However, I would note that a determination could
22 also be deemed inconsistent if it doesn't consider

1 at least one or more of the required factors, the
2 swap is not subject to mandatory clearing, or the
3 swap isn't listed by the SEF or DCM that has made
4 the determination. The length of the review
5 depends on the manner in which the determination
6 was submitted. So self-certifications are subject
7 to an initial review of up to 10 business days
8 with up to an additional 90 days if a stay is
9 issued. Rule approval findings are subject to a
10 45 day review period with an additional 45 days if
11 a stay is issued.

12 As I'll touch on further in a moment,
13 filings are subject to a public comment period if
14 the stay is issued. Now a stay may be imposed if,
15 among other things, their submissions raise novel
16 or complex issues that require additional time to
17 review. But once a swap is deemed certified or
18 approved, then the swap is made available to trade.
19 SEFs that list or offer that swap once the swap
20 has been made available to trade and subject to
21 the trade execution requirement, they must do so
22 pursuant to required methods of execution. DCMs

1 that list or offer the swap must do it so in a
2 manner consistent with DCM Core Principle Nine.
3 Market participants must comply with the trade
4 execution requirement on the later of the
5 applicable compliance deadline for the clearing
6 mandate for the particular swap, or 30 days after
7 the swap is deemed certified or approved as
8 available to trade. And once the swap is MAT it
9 remains subject to the trade execution requirement
10 until it is no longer listed or offered for
11 trading by any SEF or DCM.

12 So to touch upon briefly the
13 implementation of the trade execution requirement,
14 in the fall of 2013 the Commission received
15 determinations from five SEFs for certain interest
16 rate swaps and certain credit default swaps
17 through the self-certification process. Now given
18 that these were the first determinations received
19 by the Commission, the filings were put on a 90 day
20 stay and subjected to a 30 day public comment
21 period, during which time the Commission received
22 multiple comment letters that addressed the

1 substance of each of the filings. Ultimately, the
2 Division of Market Oversight determined that the
3 five MAT filings appropriately addressed the
4 factors and therefore recommended that the
5 Commission allow them to self-certify. I would
6 note as an aside that despite only needing to
7 address at least one of the factors, each of the
8 filings addressed more than one of the factors and
9 in some cases all of them to support the
10 determination submitted. Accordingly, upon
11 self-certification the trade execution requirement
12 went into effect during various stages during the
13 first half of 2014.

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

22 Since the effective date the Commission

1 has monitored how the requirements have been
2 implemented and has addressed questions and
3 concerns, which is something that we continue to
4 do. And where appropriate the Division has
5 provided time limited no action relief with
6 respect to MAT-ed swaps for certain types of
7 transactions, such as package transactions, and
8 transactions executed between affiliated counterparties
9 .

10 MR. SMITH: Thank you, Nhan. Heather?

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

19 So first I just wanted to note that the
20 changes to the Exchange Act from the Dodd-Frank
21 Act mirror the changes to the CEA in this regard.
22 So we have the similar statutory requirements that

1 require transactions in security based swaps that
2 are subject to the mandatory clearing requirement
3 to be executed on an exchange or a security based
4 swap execution facility unless no exchange or SEF
5 makes the swap available to trade or unless the
6 swap is covered by the end user exception to the
7 clearing requirement. So the same statutory
8 structure exists for security based swaps as for
9 swaps.

10 In proposing its SEF rules in 2011, the
11 SEC noted that the determination by one or more
12 SEF or an exchange that a security based swap is
13 available to trade on the SEF or exchange would
14 impact the trading of that security based swap, as
15 it would no longer be able to trade in the over
16 the counter markets. And in this context, the
17 Commission discussed in the proposing release the
18 potential conflicts of interest that could arise
19 with respect to when security based swaps are or
20 are not made available to trade. For instance it
21 noted that a SEF was permitted to determine that a
22 swap was made available as a trade. Any one SEF

1 could essentially prevent that security based swap
2 from being traded in the over the counter market
3 if it said that it was made available to trade on
4 its markets. Conversely, the Commission also
5 noted that a group of market participants could
6 have competitive incentives to limit the number of
7 security based swaps that would be designated as
8 made available to trade in order to keep those
9 swaps trading in the over the counter market.

10 And so because of these concerns, the SEC
11 proposed that the made available to trade
12 determination should be made pursuant to objective
13 measures established by the Commission rather than
14 by one or more SEFs or exchanges. And the
15 Commission did not propose actual objective
16 standards in its release, but it did note that the
17 objective measures could provide that the swap
18 that is subject to mandatory clearing would be
19 considered made available to trade unless the swap
20 fails to meet certain thresholds that the
21 Commission could adopt or, alternatively, the
22 objective measures could provide that no security

1 based swap would be considered made available to
2 trade unless it met certain thresholds that would
3 be adopted by the Commission. And the Commission
4 also noted that this approach would in effect
5 interpret the phrase, made available to trade, in
6 the Exchange Act as meaning something more than
7 the decision to simply trade or list on a SEF or
8 an exchange. And the Commission also noted that
9 this approach would have the further effect of
10 permitting swaps to be subject to the
11 mandatory clearing independently of whether they
12 are required to be traded, so that these would be
13 two different independent decisions. The SEC, as I
14 noted, did not propose any objective standards,
15 stating that it did not believe it had sufficient
16 data at the time to support a proposal, but it did
17 however solicit comments on how the Commission
18 should craft those objective standards, and stated
19 that it expected it would separately address how
20 to determine whether a security based swap would
21 be made available to trade.

22 And also in a related context, the

1 Commission in the same rulemaking proposed a rule
2 811(c) which would require a SEF to have a swap
3 review committee, and that that committee would be
4 responsible for determining which swaps would
5 trade on that SEF and which swaps would not trade
6 on that SEF. And the Commission, we received
7 approximately 16 comment letters relating to our
8 request for comment on make available to trade.
9 And roughly 11 commenters supported the proposal of
10 providing objective standards as opposed to having
11 one or a group of SEFs on their own determine what
12 is made available to trade. Three commenters
13 believe that once the Commission determined a swap
14 is required to be cleared that swap should also be
15 considered made available to trade. And one
16 commenter stated its view that once a swap is
17 listed on a SEF it should be considered made
18 available to trade. And commenters also suggested
19 various criteria that the Commission could look to
20 for these objective measures in determining
21 whether a swap should be made available to trade,
22 and these criteria sound a lot like the criteria

1 in the CFTC rules. For instance, the liquidity of
2 the security based swap, the frequency with which
3 it is traded, the size of the transactions in that
4 security based swap, the number and type of
5 participants, the size of the bid offer markets,
6 and the number of market makers.

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

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

20 MS. SEIDEL: So we proposed that the
21 swap review committee would have to be
22 compositionally balanced. And so in effect that

1 would mean that all classes of participants on the
2 SEF would have to be represented, as well as other
3 types of market participants, such as buy-side
4 firms, end-users. And this was proposed so that
5 the process of determining which security based
6 swaps would trade on the SEF would be fair and
7 that the voice of all the different types of
8 market participants, they would have a voice in
9 that process. We did receive I think
10 approximately nine comment letters on the swap
11 review committee requirements that we proposed.
12 Four commenters generally favored having a swap
13 review committee make the decisions about which
14 products would be listed or traded on the SEF, and
15 two commenters favored these requirements about
16 the fair representation on the swap review
17 committee. Four other commenters, however, had
18 some concerns about the compositional requirements
19 and proposed certain alternative compositional
20 requirements or requested further guidance. And
21 we received some other comments as well in other
22 areas of the swap review committee.

1 MS. MARKOWITZ: I have a question, a
2 follow up to -- does that mean one committee that
3 will go across the board for all the SEFs and for
4 all the products that are listed, or are you
5 talking about when particular SEF wants to list a
6 product and then that committee will be formed for
7 that SEF?

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

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

15 MS. SEIDEL: No. So in this regard what
16 we've proposed in this area is that the
17 determination again would be that the Commission
18 would set objective standards that a swap would
19 have to meet in order to be made available to
20 trade. So that was what I was referring to
21 earlier in the terms that it would not be if one
22 SEF said it's made available to trade then that

1 would be binding on everybody. It would be
2 pursuant to objective measures that the Commission
3 would set.

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

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

9 MS. MARKOWITZ: Okay.

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

14 MS. MARKOWITZ: Okay.

15 MR. SMITH: Thank you, Heather.
16 Kazunari?

17 MR. MOCHIZUKI: Thank you very much for
18 giving me an opportunity to attend this Roundtable
19 and to present the views on the extremely
20 important topics regarding organized trading
21 platforms. Like mandatory clearing, There is a
22 clear need to harmonize rules among regulators as

1 much as possible. In that sense let me introduce
2 our regulatory framework on this front.

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

17 In this framework the entities that are
18 subject to the mandatory use of electric trading
19 platform, the financial institutions with the
20 outstanding notional amount of no less than six
21 trillion Japanese yen for OTC derivative
22 transactions. And the entities who engage in

1 electronic trading platform business should be
2 financial institutions registered with or
3 permitted by JFSA. Requirement for the electric
4 trading platform business is to have order books
5 and to transact with order books or at least
6 request for quote for no less than three counter
7 parties. Trade information should be published
8 after the transaction without delay. Item of
9 publication is to include trade date, product
10 category, and transaction amount.

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

1 to make the final determination.

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

17 As to the recent development on 13th of
18 July, JFSA determined the products subject to the
19 mandatory trading and scheduled the mandatory
20 trading under the electric trading platform take
21 effect on the 1st of September 2015. The products
22 subject to the mandatory trading fixed to floating

1 interest rate subs which are cleared by Japan
2 Securities Clearing Corporation and with regard to
3 the detail of product's condition. Floating rate
4 index is the six months' LIBOR, and tenors of --
5 five, seven, and ten years.

6 Thank you very much.

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

13 MR. MOCHIZUKI: Thank you very much for
14 your question. So as explained the scope of the
15 interest rate product that's a subject to electric
16 trading platform mandate is to be determined by
17 JFSA, taking into account various factors,
18 including but not limited to a number and
19 aggregate notional amount of the transactions per
20 day. And basically we do not have any periodic
21 review system, but we monitor the market
22 development on an ongoing basis and take actions

1 if necessary.

2 MR. NGUYEN: Kazunari, were there other
3 asset classes, swaps in other asset classes that
4 were taken into consideration prior to the
5 finalizing of the initial scope of the mandate?

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

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

21 MR. MOCHIZUKI: Thank you. So this
22 issue was determined in consideration of various

1 factors such as the conditions for the initial
2 introduction of the mandatory clearing. So, yes,
3 this condition was calculated based on that type of
4 analysis.

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

13 MR. MOCHIZUKI: Well, under the kind of
14 Japanese regulatory framework, you know, Japanese
15 yen denominated interest rate swaps and certain type
16 of CDS are subject to the mandatory clearing
17 requirement. Among those As explained the aspects such
18 as the
19 transaction boarding mandate as a trading (inaudible)
20 worth
21 taking into account and we decided that the
22 (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

1 know, the five, seven, ten years is
2 appropriate for the trading market.

3 MR. SMITH: Thank you. Edwin?

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

14 The second point to make clear up front
15 in describing the EU mandatory trading regime, is
16 of course that we're some years behind the CFTC.
17 So what I'm going to describe is a regime that is
18 going to be coming into force in the next two to
19 three years, and not one that's in force already.
20 And some aspects of that are set out in our
21 regulations, the MiFIR or MiFID II. Other aspects
22 of it, some details of it are part of so-called

1 regulatory technical standards, or level two
2 standards that are actually not yet fully
3 finalized. As many people in the room well know,
4 those have been out for consultation and the final
5 standards are due to be published in September.

6 So having said that the broad parameters
7 of this regime are already clear and that's what I
8 will now describe. So firstly in terms of scope,
9 so what derivatives will this regime cover. The
10 key point is, as in Japan, this will be limited to
11 derivatives that are already subject to the clearing
12 obligation under our EMIR regulation. Two other
13 tests that a derivative must pass before it can be
14 made part of the mandatory trading obligation.
15 One of those is that there is at least one EU
16 trading venue on which it can be traded, not
17 surprisingly. And the second is that that
18 derivative is deemed to be sufficiently liquid.
19 And the other point to make clearly probably is
20 that this structure means that there is no bottom
21 up made available to trade process in the sense
22 that a venue can't come along and say I'm now

1 allowing trading in this particular derivative on
2 my venue, therefore I would like to propose that
3 it is included in the mandatory trading
4 obligation. There's no route to do that in
5 Europe, it will all stem from the mandatory
6 clearing obligation.

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

21 Which counterparties will the EU
22 trading obligation apply to? Well, it will apply

1 to financial counterparties, clearing members,
2 dealers, investment firms, credit institutions,
3 other financial institutions, although there is
4 likely at least initially and possibly on a
5 longer-term basis an exemption for pension funds.
6 It applies only to some -- it will apply only to
7 some non-financial counterparties, namely those
8 who are also caught by the clearing obligation,
9 and that is non-financials that have positions in
10 OTC derivative contracts that exceed various
11 thresholds. There are about three billion euro in
12 notional interest rate outstanding, about a
13 billion in credit derivative outstanding for
14 example. So not all non-financial companies, indeed
15 not all, except pension funds, financial
16 institutions will be caught by that obligation.

17 I thought it would also be useful to
18 pause for a moment on whether there will be a
19 third country impact of this to outside and beyond
20 EU entities. And in the regulation two types of
21 non-EU entities are identified as potentially
22 being subject to this obligation. Firstly, third

1 country entities, whether financial or non-
2 financial, that had they been EU institutions
3 would have been subject to the clearing obligation
4 in EU, and for these firms, institutions, it will
5 be those transactions that they undertake with EU
6 counterparties who are subject to the trading
7 mandate that will also be subject to the EU
8 trading mandate. Now what that means of course,
9 because it's likely that there's going to be an
10 overlap between third country entities who would
11 be caught by the EU trading obligation, and for
12 example, U.S. companies who would be caught by U.S.
13 trading obligations, is that unless we and our
14 colleagues in CFTC and SEC have worked out an
15 equivalent arrangement whereby a U.S. venue is a
16 legitimate and eligible venue in which you can
17 fulfill the EU trading mandate, and that would be
18 vice versa, we would obviously have a problem
19 there because on the one side you would be saying
20 European firms have to do it at a European venue
21 and then the other U.S. firms have to do it at a
22 U.S. venue.

1 Now there is another category of firms
2 who would potentially be caught by our trading
3 obligation and that is this set who are described
4 as undertaking transactions and contracts which
5 have a direct substantial and foreseeable effect
6 within the EU. As some of you will know what that
7 means is being further defined in a technical
8 standard, and I can't tell you what the current
9 draft of that technical standard is, but let's
10 assume for a moment it's similar to ones that were
11 consulted on. I think that would mean this set
12 was very, very small indeed. It's basically those
13 that have a significant guarantee from an EU
14 financial institution.

15 Now what about the timing of all this?
16 As I mentioned earlier our trading obligation
17 derives from the clearing obligation. And what
18 that means is that ESMA within six months of the
19 EU authorities adopting a clearing obligation for
20 a particular derivative, ESMA has to give a draft
21 technical standard which also says whether it will
22 be subject to the trading obligation and from what

1 time, and for what counterparties. So for example
2 it's possible, and I'm not in any way predicting
3 whether this is likely or not, but it's possible
4 that it would say yes, financial institutions,
5 clearing members of CCPs have to come a part of
6 the trading obligations, that non-financial
7 companies are not. So I'm not saying that's
8 likely, it's just possible.

9 Now what does that mean in terms of
10 dates? There are still quite a lot moving parts
11 in this, so unfortunately this isn't a train
12 timetable where I can tell you where it's going to
13 stop at each station and when. But what happens
14 first is the European Commission has to endorse
15 the draft technical standards from ESMA on the
16 clearing obligation. Commissioner Hill said a
17 couple of months ago that the Commission were
18 going to do that soon, and we anticipate that in
19 the next weeks or so. Now from then other bits of
20 the European institutional architecture, EU
21 institutional architecture, the European
22 Parliament, and the so called European Council,

1 that's member state governments, have a period in
2 which they can object. If they don't object then
3 the clearing obligation gets published in the so
4 called official journal. Three weeks after that
5 it comes into force, and that's when this six
6 month timetable for ESMA to make its
7 recommendation on the trading obligation begins.
8 During that period also has to do a public
9 consultation. So again mirroring the arrangements
10 in Japan. And then that draft technical standard
11 will go through a similar process to the clearing
12 obligation technical standard getting endorsed by
13 the European Commission, again subject to
14 objection or non-objection by the Parliament and
15 the Council.

16 Now given that MiFIR doesn't come into
17 force until 3rd of January 2017, we can't
18 anticipate trading obligation being live before
19 then. And indeed although we can't give a precise
20 date, I think in working out when this will happen
21 it's also important to recognize the challenges
22 EMSA will face in doing its liquidity assessments

1 when the clearing obligation itself is only taking
2 effect in a staged manner. So in fact some firms
3 will not be subject to that clearing obligation
4 until well into 2017, which will complicate the
5 process of a very early trading mandate
6 implementation. With that said, the regulation
7 also says that by March 2019, ESMA and the
8 Commission have to report on the progress they've
9 made in doing this. So it's not that there's no
10 pressure to get this done and live, there is, and
11 that's part of fulfilling the G20 mandate of
12 course.

13 Where will you be able to fulfill your
14 duties to trade on an electric platform. So there
15 are three types of EU trading venues which will be
16 eligible. Firstly are so called regulated
17 markets. I guess loosely you could compare them
18 with the DCMs here in the U.S. And then two other
19 categories, multilateral trading facilities, MTFs,
20 our acronym, and organized trading facilities, which are
21 also multilateral. Pretty unfortunate that that
22 word is used in one description rather than the

1 other, but OTFs are also multilateral, and those I
2 guess would be more analogous to your SEFs in the
3 United States. Now in addition to those EU
4 venues, and very importantly, regulation envisages
5 that it will also be possible to fulfill the
6 trading mandate using a trading venue in a non-EU
7 jurisdiction where the Commission has adopted an
8 equivalent decision, point one at the bottom of
9 that slide. And point two, where that non EU
10 jurisdiction has also agreed equivalence for the
11 EU trading venues. And then looking at a little
12 bit more data, 30 seconds or so on what that
13 equivalence decision is based on. And you can see
14 in the ABC provisions up there, EU has to satisfy
15 itself that those trading venues are subject to
16 authorization, effective supervision, and
17 enforcement, that they have clear and transparent
18 rules seeking to ensure that financial instruments
19 are capable of being traded in a fair, orderly,
20 and efficient manner, freely negotiable, that
21 market transparency, integrity is ensured via
22 rules addressing market abuse. So now this a

1 process and I can't predict its outcome, but also
2 on a personal basis I would certainly see no
3 reason why, for example, SEFs would have
4 difficulty given that CFTC's regime in passing
5 those tests, but we need to pass the second leg as
6 well in terms of having mutual equivalence.

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

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

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

17 MR. MCGONAGLE: Edwin, I have a general
18 question and some specific follow ups. Just so
19 generally in terms of market reaction to the
20 proposal are there areas of interest that you
21 might highlight if possible where the market has
22 weighed in heavily and where the recommendation is

1 consistent or inconsistent with what you're seeing
2 in the market in terms of comments?

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

19 MR. MCGONAGLE: And then specifically on
20 the determination of the liquidity testing can you
21 give some color or context around the phrasing of
22 anticipated impact? What might be an anticipated

1 impact that would be in favor of MAT determination
2 -- my word, sorry -- or an anticipated impact that
3 would take it out?

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

20 MR. MCGONAGLE: And then I'm interested
21 in hearing a little bit more about the nexus
22 between the clearing determination which triggers

1 the six month potential implementation then for
2 trading, is during the objection period would
3 there be expect for consideration of phasing? One
4 of the comments I think we've heard here in the
5 U.S. is a clearing determination, market readiness
6 for transacting just solely on facilities, that
7 the linkage between the two or the timing from
8 clearing to trading might need to be broader than
9 what our rules currently envision. I'm just
10 interested to see how strict the six month
11 requirement is or how flexible it is rather.

12 MR. SCHOOLING LATTER: Right. So great
13 question. And of course in Europe we have the
14 luxury of going not first so we can learn from
15 your own experiences in the vanguard. There is
16 actually quite a lot of potential for flexibility
17 built into the process. So when ESMA makes its
18 recommendation that the trading mandate comes in,
19 it has complete scope to say when and to have
20 phase-in periods, for example applying it first to
21 some type of institutions you might find it easier
22 with lags for others. Indeed if there are early

1 implementations of the trading mandate, because
2 ESMA has already -- or the EU has already set out
3 a very lengthy phase-in period for the clearing
4 obligation, it's kind of inevitable there will
5 also be quite a length phase-in for trading.

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

17 MR. SCHOOLING LATTER: Right. To some
18 extent it's difficult to answer that questions
19 before decisions have been made, but I think what
20 will be in market participants' minds is of course
21 that there is already a liquidity test in the
22 clearing obligation, and the clearing obligation

1 has only been extended to already quite liquid
2 instruments. So because we're at most a subset of
3 those I would hope there's some presumption that
4 there is good liquidity in these markets.

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

14 MR. SCHOOLING LATTER: So there's
15 transparency through the consultation process. So
16 before a clearing obligation can be brought in
17 ESMA has to go through this public consultation,
18 has to say what it's proposed and why, and has the
19 chance for feedback. The other element of the EU
20 regime where this transparency about what's above
21 or below certain thresholds is relevant, goes back
22 to the transparency requirements. So you have

1 seen in the draft technical standards there are
2 some quite specific and explicit suggestions on
3 how we calibrate what's a derivative that's
4 considered liquid enough to be subject to the
5 transparency requirements and what isn't.

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

11 MR. SCHOOLING LATTER: Okay. So we're
12 not prescriptive in the EU about the execution
13 methods that the venues have to employ. So for
14 example taking MTFs and OTFs, they can use central
15 limit order books, they can have quote driven
16 systems, they can do RFQ, they can use and develop
17 hybrids of all of those. The difference between
18 those two types of platform, the MTFs and the
19 OTFs, is that where it's an MTF, the operator of
20 the venue is not allowed to use its own discretion
21 in any way on whether to match two trading
22 interests. That has to be entirely automatic, non-

1 discretionary, built into the rules of the system
2 and totally transparent. With the organized
3 trading facility, although the same transparency,
4 the same multilateral, the same access
5 requirements apply, we wanted to create room for
6 those operators that play a role in matching
7 trading interest. So interdealer brokers would
8 be examples of these, and where actually they want
9 to help generate some trading interest by
10 suggesting those two players how aren't so far
11 apart, and actually if they both refresh their
12 quotes there might be a trade here, or looks like
13 a match but they think the two -- we know the two
14 of you would really like to deal in larger size,
15 have you thought of doing it in larger size. So
16 in the organized trading facility we've built in
17 room for the operator to use some discretion in
18 matching those trading interests.

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

21 MR. SCHOOLING LATTER: Yes.

22 MR. SMITH: I'd like to give

1 Commissioner Giancarlo and Chairman Massad an
2 opportunity to ask questions if they have any.

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

9 MR. SCHOOLING LATTE: Correct.

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

16 MR. SCHOOLING LATTE: Yes.

17 MR. GIANCARLO: I think that's all.
18 Thank you. And I just wanted to say thank you for
19 being here and to Kazunari, thank you and Heather
20 very much. This is very helpful to our work, so
21 thank you for coming today.

22 MR. VAN WAGNER: I'm sorry, I have a

1 real quick question. This is just a curiosity
2 because you mentioned the trading mandate applying
3 to financial counterparties but not to non -- the
4 NFCs I guess you call them here. I'm assuming
5 though that if an NFC does something, you know,
6 off-platform, they could do such a transaction
7 opposite a financial counterparty or they're just
8 -- because of they're limited to just finding each
9 other I guess that's not practical.

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

1 anyway.

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

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

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

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

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

1 University.

2 DR. HULL: John Hull, University of
3 Toronto.

4 MR. KHWAJA: Amir Khwaja, Clarus
5 Technology.

6 MR. MCPARTLAND: Kevin McPartland,
7 Greenwich Associates.

8 MR. SRINIVASAN: Amir.

9 MR. KHWAJA: Great. Thank you, Sayee.
10 So I guess I have a few slides to cover. Oops,
11 not a great start. Sorry. I'm not sure why that
12 --

13 SPEAKER: It's the one --

14 MR. KHWAJA: This one? So we have --
15 okay. So I guess I'll talk first about the
16 sources of data we've used in this analysis and
17 really focus on on-SEF volumes and on/off-SEF
18 percentage share. What that data tells us,
19 picking one product from credit, FX, and interest
20 rates. And we have some comments on how to
21 improve that data, sort of improve transparency in
22 this analysis, and a conclusion on those topics.

1 So hopefully I think about 12 slides, so hopefully
2 -- I promised Darrell it would be 15 minutes or
3 less.

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

1 transparency in the U.S.

2 So I guess the first question I'd like
3 to talk about his how comprehensive is that data
4 coverage. People often ask us is it applicable,
5 the data you have the SDRs, right. I guess the
6 answer depends on the currency and the product
7 you're looking at, right. So if we look at the
8 biggest product type, U.S. dollar interest rate swaps,
9 in terms of gross notional. And I think that shot
10 represents the size of the data we have. So the
11 gray circle is on-SEF volume, the green and blue
12 is the SDR data in the U.S., and the pink is the
13 global cleared volume. So I think -- so what we
14 would say is the SDR data in the U.S. represents
15 the majority of the dollar interest rate swap market,
16 right, over 60 percent, or the cleared sub market.
17 So then my examples, so we'll pick one product
18 from credit, FX, and interest rates and see how
19 the mandatory trading determination affected those
20 product
21 types. So I think -- so I've started with the
22 largest index product North American investment
grade, so that contract type has a MAT

1 determination, it's required it's five year and
2 it's permitted if it's seven year or ten year on
3 their maturities. If we look at those volumes
4 from January 2014 to June 2015, we can see it
5 averages over 100 billion, 200 billion a month
6 depending on the month, type, and volume. I think
7 all we can say is that the lowest volume was in
8 Feb 2014, which is the month of the MAT
9 determination for CDS trades. I think those
10 spikes you see are caused by the rolls in versions
11 of the contracts in March and October. And I
12 guess what we can say is that the MAT
13 determination did not impact volumes in a negative
14 way, in any kind of way, right. Beyond that it's
15 hard to observe any kind of meaningful pattern.

16 If we then turn to the on-SEF percentage
17 share I think what we see is that it's increased
18 from 55 to over 95 percent, and that's primarily
19 because it's a very standard contract and everyone
20 trades five year CDX NA IG). So that's like --
21 you know, that slide shows the -- we're over 96 percent
22 in terms of on-SEF share of the market for that

1 product.

2 If we then turn to FX NDFs, which are
3 permitted products; there's been no MAT
4 determination, and I think here I think the top
5 six currencies, three Latin and three Asian, what
6 we see on that slide is that volumes have
7 increased over the last 18 months by over 50
8 percent, both in trade count and in gross notional
9 terms. So, you know, it's trading almost \$400
10 billion in June per month. The on-SEF percent
11 share has also gone up. On trade counts it's gone
12 up from 27 percent gross notional up to 40
13 percent. So despite having very low clearing
14 percentages below single digit percentages share in
15 clearing, no MAT determination, on-SEF was still
16 increased to almost 40 percent, which you put down
17 to convenience or cost or, you know, other factors
18 that aren't to do with the MAT determination that
19 does exist for those products.

20 So we'll move to interest rate fixed
21 float swaps which are by far the biggest single
22 instrument type, you know, in the set SDR volume

1 data. They are both required and permitted, so
2 that there has been a MAT determination for some
3 types. And looking at those volumes again we see
4 volumes increasing from a low in February -- I
5 think there were some package exemptions up to
6 June, July. And again I think the best we can is
7 that MAT submission has not harmed the volumes.
8 The volumes have risen quite significantly from 1
9 trillion a month to over one half trillion
10 a month, but that's mostly with market
11 expectations in trades and the fed raising rates
12 and increased volatility then I guess in any MAT
13 kind of process. In terms of the on-SEF
14 percentages, so that has gone up from 40 percent
15 to 60, as the package exemptions came to an end --
16 but I guess it hasn't budged in about a year,
17 right, so if you look at the chart, so by June --
18 in July I would say it got close to 60 and it's
19 hovered around that level to the market share.
20 And I think that's primarily because there are
21 many subtypes of that instrument type. So if I
22 look at the on-SEF trades by far the biggest are

1 the spots starting, followed by IMM, followed by MACs
and the non-MAT
2 trades, the biggest portion of forward start swaps
3 and non-standard terms amortizers or non-par
4 coupon type of trades, right. So this is looking
5 at trade counts of those subtypes, and if you look
6 at the individual percentages what we do see as
7 we'd expect is that the MAT products have a very
8 high on-SEF percentage, 90 percent and upwards.
9 The non-MAT products include spot starting swaps
10 and IMM swaps in different tenors and different
11 dates. And for forwards and non-standards there is
12 very little on-SEF share, right. So I think
13 that's kind of what those figures tell us.

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

1 off-SEF, yeah.

2 I think -- slight digression -- some comments on
3 improving the product data. And I think that's
4 probably because I think I've used Part 43 as a
5 big step forward in transparency in the U.S. for
6 what's better than the OTC markets. But there's
7 no real forum to feedback to improve that data
8 that's been there for two-three years now, hasn't
9 particularly changed in the source itself. So it
10 would be helpful -- so what we often get asked,
11 and we have many users that read our blogs and the
12 data products, they ask us what we would like see
13 in the data set is whether a trade is D2D or D2C
14 in the marketplace, whether it's voice or
15 electronic execution, whether it's an RFQ or clob
16 or an auction or, you know, how it's transacted.
17 The capping of notionals kind of introduces noise
18 because I think for large trades because there is
19 a time delay to make public that delay or to be
20 sufficient to discuss full notional in our view of
21 transparency, knowing where the clearing venue is.
22 At the moment in the last few months it's become

1 clear that the clearing venue affects the price,
2 whether it's a CME or LCH swap, so that ought to be
3 we think, you know, on the SDR tape, execution
4 venue, which SEF traded that product type, helps
5 transparency, and being able to link trades to a
6 package. So at the moment we have to enhance the
7 data to do that analysis, and that creates some
8 false positives in that analysis. So if that was
9 unsourced data then it would make analysis
10 transparency available in the marketplace.

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

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

17 MR. MCGONAGLE: Fair enough, fair
18 enough.

19 MR. KHWAJA: And it would be helpful I
20 would say, yes, yeah. So I guess coming back to
21 my main conclusion, the main point of the talk
22 really, so if we look at CDX index product and

1 where there is a very standard contract and
2 there's MAT determination, we've seen very rapid
3 increase to over 90 percent of that volume, of
4 that product on the share and no impact on
5 liquidity of volume that we can see, right. FX
6 NDFs, so even without a MAT determination we still
7 see an increase to about 40 percent in gross
8 notional terms of product, and that's for a
9 product type where there is extremely low clearing
10 percentages, single digits I would say clearing in
11 the marketplace, and where there are significant
12 cross-broader jurisdiction probably, you know,
13 issues, you know. So I think to us that means
14 it's convenient to be on-SEF for either costs
15 reasons or just the plumbing is there or whatever
16 the issues are, right. So the market itself had
17 decided it makes sense to move those. And that
18 has increased over time, right, so it's not been a
19 static implementation and it's increasing I would say on
20 the SEF. Dollar IRS I think is by far the
21 biggest product of these two volume terms. So
22 on-SEF has been stuck at 60 percent for the last 1

1 year I would say. So actually it moved there very
2 quickly from 40 to 60 and it's remained at that
3 level mainly because there are many sub-types that
4 are not under a MAT determination. So I think
5 it's possible that I guess some sets could
6 consider making all tenors on spot starting at the
7 moment, eight year, nine year, eleven year are not
8 MAT, as is broken dates. Same with IMM and MACs.
9 Now I think that would simply avoid the complexity
10 of knowing which ones to exclude from a SEF,
11 right. But normally you have to know that an
12 eight year is not excluded, you know. Why bother?
13 And there are a fair number of eight years on-SEF
14 already, broken dates. And so that would add a
15 few percentage to the on-SEF market share.

16 But I think by far the largest portion
17 of forward-starting interest rate swaps that are
18 off-SEF, which again, you know, is largely a D2C
19 type product, you know. And I think these have
20 not shown any change at all in on-SEF transition
21 volumes. So it's clear to us that only a MAT
22 determination will move those. That has

1 complexity and that unique -- you need to capture
2 two dates, a forward date and end date, but
3 definitely they're priced off liquid spot
4 starting products at the curve, right. So I'm not
5 sure the same liquidity arguments that, you know,
6 we discussed -- because they're priced on
7 something else and that pricing is very standard.
8 I guess, you know, it could be done in that sense,
9 in our view. And I think that would make a significant
10 change to the on-SEF percentage. So
11 it would go upwards of 80 percent if forward start
12 swaps were made MAT.

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

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

21 MR. KHWAJA: Yes. So in our view -- and
22 we heard this quite a bit from people. People

1 often say quality is not good. You know, that's
2 not our impression at all, right. So I would say
3 that the on-SEF cleared data is extremely good
4 quality for our sort of analysis, right, both in
5 terms of volume and price. I think the off-SEF
6 unclear data is probably less, you know. I think
7 mainly because it has a far higher number of intra-day
8 corrections are made to that data that we see that
9 we process, and also the timely aspects. It's
10 less timely made public, right. So I'm not sure
11 we could trust the execution of the off-SEF clear,
12 unclear trade, but on on-SEF cleared I would say
13 it's extremely good quality of data.

14 MR. SRINIVASAN: Kevin?

15 MR. MCPARTLAND: Great, thanks. I'd
16 first like to thank the Commission for arranging
17 the Roundtable today. We appreciate the ongoing
18 efforts to ensure the swaps market functions
19 efficiently and continues to thrive. Again my
20 name is Kevin McPartland; I'm the Head of Market
21 Structure and Technology Research for Greenwich
22 Associates. We are an independent, privately-held

1 researched-based consulting firm. Our clients
2 span the entire market ecosystem, including large
3 banks, real money investors, hedge funds,
4 principal trading groups, financial technology
5 providers, exchanges, and more. We interview
6 about 60,000 market participants around the world
7 annually and have been doing so for more than 40
8 years. We used the quantitative and qualitative
9 information collected from those interviews to
10 examine the impact of market structure changes,
11 regulatory, technological, and economic on the
12 industry and its participants.

13 So before we discuss ideas for change I
14 think it's important to first examine more closely
15 how far we've come in the past five years. In
16 2010, interviews with over 100 U.S.-based investors
17 trading interest swaps revealed that 17 percent of
18 them were trading at least some of their volume
19 electronically. In volume-weighted terms this
20 amounted to nine percent of notional volume
21 traded. The rest of that volume of course was
22 traded via the phone, instant message, and email.

1 And remember we're talking about the dealer-to-
2 client trading.

3 If we fast forward to today, in 2015 our
4 latest data, which was finalized just months ago,
5 paints a pretty amazing picture of change. The 17
6 percent of investment firms trading some volume
7 electronically in 2010 has jumped to nearly two-thirds
8 in 2015. Looking at asset managers specifically
9 the increase is even greater, now up to three-
10 quarters of those firms. To further that story 60
11 percent of client trading by notional volume is
12 doing electronically today, up from 9 percent in
13 2010.

14 The transformation of the CDS market is
15 even more amazing. Five years ago, less than 10
16 percent of investor trading volume in investment
17 grade index CDS was done electronically, today
18 that number has jumped to an astonishing 93
19 percent. That is the highest rate of electronic
20 trading reported in any market that we cover,
21 including markets known for their electronic
22 trading, like equities and FX. The result of this

1 change is a market with increased price
2 transparency, more competition amongst liquidity
3 providers, and increasingly better execution
4 quality for investors. And while the trade life
5 cycle has become more complicated, the automation
6 and risk reduction is proving worth it.

7 So while we're here today to talk about
8 improving the process let's not lose sight of how
9 far we've already come. Further expansion of SEF
10 trading is inevitable, but it will be
11 unnecessarily slow if the current made available
12 to trade process remains as is. The first MAT
13 submission was expansive, looking primarily at
14 what was already clearable rather than what was
15 already trading in an active way on screen. While
16 this approach seemed logical on the surface,
17 market participants quickly revolted claiming it
18 was trying to move too far too fast, and it
19 probably was. But the industry's reaction served
20 to discourage other SEFs from pushing the envelope
21 with their own submission for fear that trading
22 would either leave or never come to their

1 platform. As such, the MAT submissions that
2 followed were scaled back to a more manageable
3 level and close copies of one another, the SEFs
4 feeling safety in numbers. They targeted products
5 that were already trading on screen, and as such
6 would provide for a more organic way to move to
7 mandatory SEF trading. Clients of the SEFs knew
8 something had to be MAT'ed and saw these narrower
9 submissions as a workable solution given their
10 previous experience trading these products
11 electronically.

12 In the months since as we've seen SEF
13 trading grow and investors become increasingly
14 comfortable interacting with the street,
15 electronically conflicting interests have
16 continued to ensure that MAT submissions will
17 occur infrequently if they ever occur at all.
18 While we are in general a fan of allowing natural
19 market forces to drive change, the uncertainty
20 created by a jammed up MAT process cannot slow
21 progress that might have otherwise occurred
22 naturally. The original assumption was that SEFs

1 would want as much mandated for trading as
2 possible given most derived revenue from volume,
3 and so would make as many swaps available for
4 trading as they could. The reality, however, is
5 that as any good business owner would do, the SEFs
6 don't do what they want, but instead do what is
7 best for their customers. So while both the buy-
8 and sell-side have adapted well to electronic
9 trading in some interest rate swaps and index CDS,
10 they'd still prefer to make the method of
11 execution decisions on their own rather than being
12 told what to do.

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

1 mandated for clearing or SEF trading.

2 Nevertheless electronic trading in both is growing

3 with investors telling us that they plan to do

4 more electronically in the coming year. While

5 organic adoption of e-trading works, the timetable

6 for adoption is considerably longer than for a

7 product mandated for SEF trading. As such, we

8 believe that the CFTC should take control of the

9 MAT process, citing which products should receive

10 SEF trading mandates using an approach similar to

11 the ones used to making clearing determinations.

12 A set of metrics should be agreed upon to make

13 these determinations, including current rates of

14 e-trading adoption for instance. The impact on the

15 current market functioning must also be closely

16 examined. For instance of NDFs were mandated for

17 clearing and SEF trading would the significant

18 increase in costs associated with those

19 requirements cause market participants to leave

20 the market altogether. The impact on package

21 transactions should also be accounted for. With our

22 experience over the past four years and the rates

1 market as a guide. Lastly, industry input should
2 also be taken into account, particularly from
3 liquidity providers, investors, and the swap
4 execution facilities themselves. Allowing the
5 CFTC to make the final determination as to what
6 must be traded on SEF would take the existing
7 conflicts out of the process and allow the
8 implementation of Dodd-Frank to continue on at a
9 reasonable pace.

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

14 Thanks again for your time.

MR. Srinivasan: Darrell.

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

1 affected my opinions at all. My opinions are my
2 own.

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

22 I also want to echo Kevin's remarks on

1 my view that although it may be difficult, and
2 there's going to be a lot of judgment calls I
3 think you want to have your hand on the tiller
4 pretty firmly in terms of what you make available
5 for trade. And I think that echoes some of the
6 remarks also of Heather Seidel from the SEC, and
7 to the extent that I understood it the remarks
8 from the representative from the FCA in that the
9 conflicts of interest within the market itself
10 will not necessarily always resolve themselves in
11 favor of market efficiency and financial stability
12 for the obvious reasons that Miss Seidel mentioned
13 this morning. There are obviously SEF operators
14 who prefer to have more made available for trade.
15 And if it were left to them and not you, you might
16 end up with inappropriately many or wrong things
17 made available for trade. And on the other hand,
18 if dealers were to have their first choice, it
19 would be very natural that they would prefer not
20 to be competing with each other for rents
21 associated with intermediation. That's the first
22 principle of economics.

1 The thing I want to spend most of my
2 remaining remarks on is the fact that not all
3 exchange trading is alike. And I know you're very
4 aware of that, but there are additional
5 complementarity and network effects here. For
6 example, in terms of liquidity, whatever market
7 structures are set in place first have a lot of
8 persistence. It's very difficult to switch. So
9 once you approve something, it's made available
10 for trade, you've made entry much more difficult
11 because liquidity goes where liquidity is.

12 The second area is the fact that there
13 are conflicts of interest and also just
14 differences of views on the nature of the most
15 effective matching methodology. So the sort of
16 gut reaction to what kinds of SEFs are appropriate
17 is well, we'll have RFQ and whenever the trading
18 gets sufficiently active then the industry will
19 figure out on its own that it should be trading in
20 a central limit order book because you have sufficient
21 in volumes. I think that view is naïve. First of
22 all, not all central limit order books are the

1 same, and in the CDS market the buy-side has shown
2 a lot of hesitancy in participating in central
3 limit order books because of name give-up. And I
4 think that's been well-remarked upon. And in an
5 RFQ setting, if you are facing a dealer as a buy-
6 side market participant you're -- as those are
7 generally set up that way -- you'll have lost the
8 opportunity to provide liquidity to other market
9 participants yourself, that is to provide quotes
10 to other and earn rents that way, and also to get
11 more efficient trade matching. All-to-all anonymous
12 central limit order books are a lot more efficient
13 at getting matching. They don't have to be
14 continual central limit order books if there is
15 not enough volume, you can have batch trading.

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

1 set up a trade.

2 On the specifics of FX derivatives, and
3 coming back to the financial stability issue, I
4 know it's water under the bridge, but academics
5 are never -- had that much influence by water
6 under the bridge arguments. We're talking about a
7 much smaller amount of financial stability gains
8 in the non-deliverable forwards area that was let
9 go in the physical delivery exemption that was
10 made. I want to reemphasize -- and I made a
11 submission to Treasury on that laying out my
12 views. There is every bit as much financial
13 stability concern in that market as there is in
14 the credit default swap market. And the fact that
15 CLS is already taking care of the gross settlement
16 risk, a point that's been overemphasized from the
17 viewpoint of reducing financial stability
18 concerns, is not really pertinent here. When
19 we're talking about non-deliverable forwards there
20 never was a gross settlement risk in the first
21 place. It's all mark-to-market risk and it's
22 quite big. When we get into the deliverable

1 currency FX market, the mark-to-market risk of that
2 market is very large and it's much more highly
3 concentrated than essentially any other derivative
4 market in terms of market participants and the
5 types of underlying financial instruments. Eurodollar
6 short-dated FX deliverable forward is at
7 extremely highly concentrated amount of
8 counterparty risk. So I know that you don't
9 control that mandate here at the CFTC, but as an
10 academic I said I'm not influenced by the water
11 under the bridge argument. I'm going to keep
12 bringing this up as often as possible because it's
13 a big concern.

14 The other area in the FX market that you
15 maybe are already thinking about is the renminbi.
16 The renminbi as you know is becoming
17 internationalized and that's going to have two
18 effects on the value of exchange trading. The
19 increased internationalization is going to reduce
20 the need to have that be a non-deliverable
21 product. It will become at some point
22 increasingly a deliverable FX market as renminbi

1 become physically available throughout major
2 financial centers to a greater degree. Going the
3 other way, the non-deliverable market may grow
4 substantially simply because the renminbi is
5 becoming such an important international currency.
6 So whatever you decide in the next short while
7 with respect to RMB, you might want to revisit it
8 in the near future based on how market conditions
9 have changed with respect to the size and mix
10 between deliverable and non-deliverable RMB.

11 With that I'll stop.

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

15 DR. HULL: Okay, thank you, Sayee. Yes,
16 we were joking earlier that as I'm the last to
17 present I have the equity tranche. Anyway, I'd
18 like to thank CFTC for inviting me here today to
19 present my views. Much of my research over the
20 last 30 years has concerned the over-the-counter
21 derivatives markets, and I followed with great
22 interest the changes that have taken place

1 following the 2009 G20 meetings and the 2010
2 Dodd-Frank Act. I'm probably not as close to the
3 mandatory trading rule as the other panelists
4 here, so you can think about my comments as being
5 more from, you know, 100 miles up.

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

20 But the subject to today's meeting is
21 CFTC's made available to trade rule; and as was
22 pointed out earlier the swaps that are subject to

1 this rule at present are plain vanilla interest
2 rate swaps in the U.S. dollar, euro, and sterling
3 with nine standard maturities, standard payment
4 frequencies, standard day count conventions,
5 holiday calendars, and so on. And they also
6 include five year credit default swaps on CDX IG,
7 and iTRAXX.

8 The first point I'd like to make is that
9 the entities trading these products on SEFs are
10 for the most part sophisticated financial
11 institutions. Indeed as far credit default swaps
12 are concerned I would -- you know, I think it's
13 pretty much the case that only financial
14 institutions trade credit default swaps, so I
15 think that would certainly be true of credit
16 default swaps. As far as interest rate swaps are
17 concerned, of course non-financial end users do
18 trade interest rate swaps, but non-financial end
19 users when using swaps to mitigate risks are
20 largely exempt from the MAT rule and will tend to
21 trade directly with banks using ISDA master
22 agreements and bilateral clearing. Banks with

1 assets less than \$10 billion are also exempt from
2 the rules. So again my point is that most of the
3 entities trading the products are fairly
4 sophisticated financial institutions. And I think
5 this highlights an important difference between
6 swaps and futures. The entities trading swaps on
7 SEFs are a relatively small number of
8 sophisticated market participants. By contrast
9 there are hundreds of thousands of participants of
10 course in futures markets. The CFTC doesn't need
11 to protect swap markets in the same way that it
12 protects futures market participants because after
13 all it's the market participants themselves that
14 created the market. They understand it very well.

15 Another important difference between
16 swaps and futures of course is the volume of
17 trading. In swaps markets, trading takes place
18 spasmodically. In futures markets it takes place
19 continuously. And transactions in the swaps
20 market, of course, when they do take place, are much
21 larger. As mentioned earlier, swaps with nine
22 standard maturities between financial institutions

1 are subject to the MAT rule, and those nine
2 standard maturities, as was pointed out earlier,
3 are two, three, four, five, seven, ten, fifteen,
4 twenty, and thirty years, if I didn't miss any out
5 there. But these have always been the most
6 popular maturities. And statistics from Clarus
7 show that there has actually been a marked
8 increase in the use of non-standard maturities in
9 the last few years. Non-standard maturities such
10 as nine, fourteen, and nineteen years, and I think
11 this can only be to avoid a swap being classified
12 as a standard deal and subject to the MAT rule.
13 There has also been a tendency for swap trading to
14 move offshore. It's become well known that
15 standard swap trades involving U.S. persons are
16 less attractive than those that are free from the
17 CFTC rules. For example, ISDA produced some
18 statistics showing that euro interest rate swaps
19 between European and U.S. dealers declined from
20 25 percent of the total market to 9 percent of the
21 total market. It seems to me that this is a
22 potentially serious problem that the CFTC should

1 think about. We're in danger of another
2 regulation queue-type situations where regulations
3 causes a whole market to be lost to the United
4 States. It's true of course that other
5 jurisdictions are implementing their own version
6 of SEFs and OTFs, but I think the very real danger
7 is that the rules in other jurisdictions will have
8 much more flexible execution than the rules in the
9 United States.

10 So I have to say that I'm forced to the
11 conclusion that CFTC's regulation of SEFs should
12 be more principles-based and less rules-based. It
13 should allow optimal trading practices to evolve
14 subject to broad principles specified by the CFTC.
15 SEFs should be encourage to experiment with
16 different trading models so that competition
17 determines the best way of organizing trading.
18 And this of course is what's happened over time in
19 other markets. Pre-crisis trading in the swaps
20 market had evolved to a point where it made
21 extensive use of interdealer broker, and I think
22 that in markets where trades take place

1 spasmodically, human brokers do seem to help
2 efficiency and to be necessary to create
3 liquidity. They're used in the bond markets,
4 they're used in, for example, the real estate
5 markets, to give a totally different market. And
6 those are both markets where trading takes place
7 spasmodically. When trading takes place
8 continuously it can be completely automated so
9 that virtually no human intervention is required.
10 And it may be there will be technological
11 developments allowing trading in less liquid
12 markets such as swaps to be totally automated.
13 But my impression is we're not there yet.

14 And this I think creates a dilemma for
15 the CFTC and, you know, regulators in other
16 countries. You want full pre-trade price
17 transparency, and this is clearly possible if
18 trading is fully automated. But it seems that
19 efficient trading for many swaps requires human
20 brokers. Full trade price transparency is then
21 not possible. It's not really realistic to
22 require every voice interaction between a broker

1 and a potential trader to be made available to the
2 market. And let's not forget that we do get full
3 post-trade price transparency from the trade
4 repositories. I think one can argue to some
5 extent that pre-trade price transparency is icing
6 on the cake and full pre-trade price transparency
7 may be an unattainable objective, except for the
8 most liquid swaps out there. And I think our
9 objective is to embrace more than just the most
10 liquid swaps in what we're doing here.

11 Let me use an analogy here, and I
12 apologize if you don't like this analogy, but when
13 I sell my house I probably have access to the
14 selling prices of other similar houses and all the
15 asking prices, but I don't have access to all the
16 bids and any backwards and forwards negotiations
17 that go on between buyer and seller, nor do I have
18 access to all the discussion that goes on between
19 a real estate agent and his or her client. And as
20 far as I know, no one has ever contended that this
21 would be useful or necessary. I know this is a
22 silly analogy, but derivatives markets are not

1 totally dissimilar from houses. They trade
2 spasmodically. Some houses are almost perfect
3 substitutes for each other and others have more
4 unique features. So I think it would be dangerous
5 to suggest that we don't need human brokers at
6 all.

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

1 because we've regulated the trading practices. So
2 some flexibility is required there.

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

10 I'd just like to mention one or two
11 specific CFTC rules. I would actually abandon
12 CFTC's rules requiring three requests for quotes,
13 although I was interested that that's planned to
14 be introduced in Japan. I think if two
15 sophisticated financial institutions are prepared
16 to trade with each other there seems to be no
17 reason why the trade should not be allowed to
18 proceed. In an illiquid market, we don't want to make
19 trades more difficult than we have to. And to
20 continue with my house analogy it wouldn't make
21 any sense for me to require that I obtain three
22 bids before I'm allowed to sell my house. I would

1 also abandon the 15-second time delay rule and the
2 block trade rule. What I would do is allow
3 individual SEFs to use those rules, but not
4 require them to do so, and in that way we'll
5 determine whether the rules are positive for the
6 market in terms of the development of liquidity.

7 So to conclude, there can be no argument
8 that the over-the-counter derivatives markets serves
9 a useful purpose in transferring risks in the
10 economy and has done so for a long time. It's grown
11 very, very fast and will continue to grow and
12 adjust to the risks that are out there in the
13 economy. And sometimes rash decisions have been
14 made and then they've led to big losses. I think
15 regulators should feel very proud that the extra
16 margin requirements and trade repositories have
17 greatly reduced systemic risks and increased post-
18 trade price transparency. In terms of the overall
19 health of the financial system, I would argue that
20 regulating trade execution is less important than
21 the other two things. In other words, it's less
22 important than regulating trade reporting and

1 increasing margin requirements. And I would also
2 argue that it actually requires quite a light
3 touch because one doesn't want to interfere with
4 liquidity. And we don't want to make it difficult
5 for the best trading platforms to develop. Above
6 all we don't want a swaps market to move away from
7 the United States. The United States as we've
8 heard is already ahead of other jurisdictions on
9 mandatory trading. It should aim to also lead the
10 world in optimal trading practices for swaps as it
11 has for other financial instruments.

12 Thank you.

13 MR. SRINIVASAN: Lots of different
14 themes out here. I had a question, and you can
15 sort of take in any order you want to, maybe I'll
16 start with Darrell. This is -- we had a panel a
17 couple of months ago where there was a head trader
18 from a buy-side firm saying that nothing
19 ultimately has changed in the marketplace in terms
20 of how they do business. They used to do D-to-C,
21 they continue to do D-to-C. The form used to be
22 called whatever, now it's called a SEF. The

1 shingle has changed but nothing fundamentally has
2 changed. So if you think of, you know, some
3 regulatory perspective and you want to sort of
4 encourage the growth of the markets and trading on
5 the regulated platforms, on the other side you had
6 this kind of pre-trade transparency and
7 potentially encouraging competition I guess. So
8 I'm curious to hear where is the buy-side? There
9 will be sort of conflicts of interest from the
10 sell-side perspective, but where is the buy-side?
11 And how do you get the buy-side to sort of come
12 and sort of compete with the dealer? I just
13 thought if you have any thoughts on it. Maybe
14 I'll start with Darrell with the idea that you
15 have this consulting gig on the side.

16 DR. DUFFIE: Sure. Well, we could just
17 go to history. In the early 1970s, the Chicago
18 Board Options Exchange introduced -- put option
19 trading on a board of trade. And within a year
20 volumes had -- in fact on their first month of
21 trading volumes exceeded any other prior year of
22 OTC trading in that market. Why? Because of the

1 opportunity for everyone, buy-side and sell-side,
2 to meet in the same venue and to compete with each
3 other to provide liquidity to each other. Volumes
4 soared and now there are many orders of magnitude
5 greater than they ever were in the OTC market.
6 Almost every other case in which exchange trading
7 or aspects of exchange trading, like trading
8 platforms with central limit order books were
9 introduced, the same benefits were achieved in
10 terms of lower trading costs, higher volumes.
11 Volumes are important because they tell us how
12 many potential trades where there were gains from
13 trade actually occurred. So volume is a good
14 measure, not completely satisfactory, but a good
15 measure of the benefits associated with allowing
16 exchange trading. In some cases the experiment
17 has not been as successful as is it might have
18 been. The CDS market which I mentioned earlier is
19 a good one and I think that's because of the
20 practice of name give-up at the only venue that
21 has all-to-all competition for trading, which is
22 the interdealer broker market for CDS. The buy-

1 side tends to shy away from that market because
2 they're required to give up their name to whoever
3 participates as sort of a randomly chosen
4 counterparty as opposed to RFQ market which
5 provides much less competition for that trading
6 order, but you can control who gets the
7 information about your trading interests. That's
8 very important to the buy-side. As a result we
9 have a two-tiered market. This is all described
10 pretty well in a Managed Funds Association memo on
11 this issue.

12 So as I mentioned in my prepared
13 remarks, it's not just whether we have exchange
14 trading or not, it's the manner of exchange
15 trading that largely determines how much everyone,
16 not just the buy-side, benefits. I shouldn't say
17 everyone, the dealers of course are going to lose
18 some of the rents associated with providing
19 immediacy, but more gains from trade and all of
20 the other advantages of exchange trading that we
21 know about, operational gains, lower margin
22 requirements when you have central clearing, and

1 so on. So I wouldn't agree with the suggestion
2 that it really doesn't matter that much, I think
3 it matters quite a lot.

4 MR. SRINIVASAN: John?

5 DR. HULL: Well, your question was about
6 end-users. And I mean there are obviously many
7 different sorts of end-users out there. Some are
8 financial institutions like insurance companies
9 and so on, and fairly sophisticated, others are
10 hedge funds, and some -- you know, those sort of
11 end-users I think would be fairly comfortable
12 trading on SEFs. But, you know, many of the,
13 shall we say, corporate end-users who perhaps, you
14 know, trade just a handful of derivatives every
15 year would far rather not be bothered with all the
16 overheads of using an SEF. It's just much easier
17 to call up your friendly local banker and, you
18 know, do the trade directly with the bank. On top
19 of which of course, you know, the whole nature of
20 the OTC derivatives market is that you can tailor
21 the deal to meet the needs of the end-user. And
22 this is particularly true for the small corporate

1 end-users. And so this is something they can do
2 if they deal directly with a derivatives dealer,
3 but much more difficult if they're using SEFs. So
4 I think there is sort of two, you know, parts to
5 the market. You know, we'll continue -- I don't
6 think it's realistic to expect every end-user to
7 want to use SEFs.

8 MR. KHWAJA: Yes, I guess I think from
9 what Kevin pointed out, I think the buy-side has
10 moved to electronic trading and Kevin shared some
11 figures on that. I guess they've remained --
12 they've preferred to remain on RFQ model and trade
13 with Bloomberg. I think that has been their
14 choice, you know, for buy-side participants.
15 Yes, I don't see -- I hope whereas the active
16 order books we see in rates and credit are in the
17 inter-dealer sort of trade activity. But I think,
18 you know, that that's been a choice made by their
19 participants, right. I guess over time we would
20 see more firms do what Darrell talks about, you
21 know, that aren't traditional market makers. And
22 I think that is starting, and I think over time as

1 there is money to be made and more efficient I
2 think it will happen. But I think it sort of --
3 it will happen through economic benefits, right,
4 as opposed to mandates.

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

20 And then the other statistic that we
21 look at quite closely in terms of a changing
22 landscape, still over 60 percent of client trading

1 of interest rate derivatives in the U.S. happens
2 through the top 5 dealers. So it's still very,
3 very concentrated from a trading perspective on
4 the bank side. The flip side to that argument is
5 -- and I think Amir pointed this out quite well --
6 is that the amount of data that we have in the
7 market today is leaps and bounds beyond where it
8 was in 2009. Even of course there are places
9 where we would all like to see more information,
10 but it's not even close to where we used to be.
11 So I think that was a huge change.

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

1 interesting.

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

17 The other point that I think is worth
18 mentioning, and John spoke about this a bit, is
19 yeah, we talk about the buy-side all of us often
20 as a single thing. They're very, very different,
21 right, real money, insurance, and hedge funds,
22 they're very different entities with different

1 needs. We ask every year what is your preferred
2 trading protocol on SEFs -- well, every year since
3 there have been SEFs -- and still by and large
4 they look for RFQ. And I think the buy-side has
5 been collectively happy with the way things have
6 been. That doesn't mean it's the best way and the
7 way things should be, it just means that they're
8 not feeling enough pain to really push for a
9 change or to push for a new way of interacting
10 with one another.

11 MR. SRINIVASAN: I have one more
12 question before that. I wanted to ask Chairman
13 Massad or Commissioner Giancarlo, do you have any
14 questions? So the question I had was in terms of
15 we're all economists here, at least a few of us
16 here, in terms of price discovery, right, so from
17 your research on these markets -- and this is like
18 to economists, which is what the state of the swap
19 markets in terms of, you know, the quality of the
20 price discovery process? If folks are comfortable
21 with any of the status quo in some sense they're
22 not feeling any pain then, you know -- so that

1 balanced against this other view and approach in
2 some jurisdictions of the regulators taking a more
3 active role. Regulators prior to Dodd-Frank were
4 just not comfortable sort of defining, at least in
5 the digital space, in terms of prescribing a market
6 structure. We know what happened in the
7 Reg NMS. So how do we sort of balance these
8 two, right, in the sense that if firms are
9 comfortable that the prices can reprocess and, you
10 know, we should let the market find its own
11 equilibrium in terms of the level of transparency
12 that they are comfortable with, because how do we
13 determine from our perspective or how do we
14 facilitate -- what's our role in sort of improving
15 the price discovery process? Once again, Darrell, if
16 you want.

17 DR. DUFFIE: Okay. With respect to the
18 lessons of history, TRACE is probably the best
19 experiment there. And the results are generally
20 -- I'll characterize them because it's a messy
21 literature -- but there are about 10 papers in the
22 literature and to the extent that it's price

1 transparency, post-trade transparency has improved
2 liquidity. It's been generally the case that bid
3 ask spreads have lowered and that in the least
4 liquid products the additional transparency has
5 discouraged the provision of deep markets for some
6 of the less, you know, high-yield bonds and so on.
7 But I think we need to focus both on what -- well,
8 we need to make a distinction between post-trade
9 and pre-trade price transparency with respect to
10 what they do. Both of them help the end user to
11 know what the going price is and therefore to be
12 in a better negotiating position with respect to
13 the -- usually the dealer on the other side. That
14 improves rents for the buy-side, makes better
15 shopping opportunities. However, pre-trade price
16 transparency does one additional thing. When you
17 have sitting in front of you a number, let's say
18 three or five executable price quotes and you can
19 simultaneously hit the button on one of those
20 five, that's a lot different than contacting in
21 sequence five different dealers on the phone and
22 then finding which dealer offered the best price.

1 It might have been the second one. You go back to
2 that dealer and you say okay, I'll take the price
3 that you offered me five minutes ago and then the
4 dealer may say well, you know what, markets have
5 moved in the last two or three minutes and it will
6 be very difficult on average to contract on the
7 same price that you got the first time around. So
8 pre-trade price transparency short circuits that
9 problem and forces whoever is providing quotes to
10 compete against other simultaneously, and that
11 provides better opportunity for competition to
12 work and to create more trade.

13 MR. SRINIVASAN: John?

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

1 earlier presentation.

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

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

14 MS. MARKOWITZ: Yes.

15 DR. HULL: I mean I understand the need
16 for the block trade rule in other markets, you
17 know, the futures markets and the equity markets.
18 I'm sort of less clear about whether it's really
19 necessary in the swaps market, the trades are so
20 big anyway. So somebody comes along, wants you to
21 do a trade that's, you know, five times or ten
22 times a sort of average trade. Is it necessary to

1 handle that one differently? I think my point was
2 maybe it is, maybe it isn't, but I would let the
3 market determine that. I wouldn't legislate it.
4 So I think that was the point that I was trying to
5 make as far as the block trade rule. I wasn't
6 sort of necessarily going to throw it out of the
7 window, I was just saying that I wouldn't be too
8 prescriptive about it. And, you know, basically
9 the same sort of thing about the 15-second time
10 delay rule. I mean it may well be that that
11 actually does help the market function better, but
12 if it does then SEFs are going to implement it
13 anyway. So I wasn't really saying these are bad
14 rules, but I would say that I wouldn't necessarily
15 impose these rules on the market. I'd let the
16 market determine whether it wants to use those
17 rules or not.

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

21 DR. HULL: Seconds.

22 MR. KHWAJA: Fifteen seconds?

1 MS. MARKOWITZ: He's talking about
2 crosses.

3 MR. KHWAJA: Oh, cross? Okay.

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

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

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

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

19 (Recess 12:05 p.m.)

20 (On Record 12:20 p.m.)

21 MR. SMITH: All right. I will now begin
22 Panel Three. Panel Three will focus on the MAT

1 process and prospective changes that could
2 potentially enhance this process. In this panel
3 we will discuss numerous concepts including who
4 should make a MAT determination, the appropriate
5 criteria for making a MAT determination, as well
6 as product specific considerations.

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

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

12 MR. BERGER: Stephen Berger from
13 Citadel.

14 MS. CAVALLARI: Lisa Cavallari from
15 Russell Investments.

16 MR. FRIEDMAN: Doug Friedman from
17 Tradeweb.

18 MR. HIRANI: Sunil Hirani from trueEX.

19 MR. JOHNSON: Vincent Johnson from BP
20 representing ISDA.

21 MR. LEIZ: Arthur Leiz from Goldman
22 Sachs Asset Management.

1 MS. PATEL: Angela Patel from Putnam
2 Investments.

3 MR. SENFT: Dexter Senft from Morgan
4 Stanley.

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

7 MR. STEINFELD: Ron Steinfeld,
8 MarketAxess.

9 MR. SULLIVAN: Wally Sullivan, Javelin
10 Capital Markets.

11 MR. TSAI: Edward Tsai, Credit Suisse.

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

22 Should the prescribed approach for

1 applying the current MAT factors and MAT
2 determination be modified? Lisa?

3 MS. CAVALLARI: The short answer is yes.

4 (Laughter) It should be modified.

5 I think before I continue, and Mr.
6 McPartland did this earlier in a
7 prior session, we've undergone a
8 tremendous amount of change within
9 since the SEFs have been up and
10 running in February 2014. And I
11 think we have to recognize that a
12 lot of progress has been made and
13 that the buy-side, the sell-side,
14 the SEFs, and the derivative
15 clearing organizations have all
16 come together to get us to this
17 particular point in time. So I
18 appreciate the opportunity to be
19 here today to speak about what
20 potential improvements could be
21 made to the process. I can only
22 imagine that perhaps we didn't

1 envision that we're at this state
2 in the process without additional
3 MAT determinations, for example,
4 being applied for self
5 certification since that time. I
6 do think that because we have a
7 subset, because we have over the
8 past close to 35 years of OTC
9 trading, we've taken that and we've
10 driven a subset into what should be
11 cleared and then further refined
12 that into a subset of MAT or SEF
13 required trades. Those particular
14 trades much like the clearing
15 determination does I believe --
16 representing Russell Investments --
17 require a little bit more of
18 perhaps CFTC -- I don't want to say
19 intervention, but perhaps the
20 invisible hand of setting off that
21 process. I know right now that it
22 is not written that way, but I do

1 believe that we could be better
2 served doing that.

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

9 So those would be my comments on that
10 particular question.

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

13 MR. HIRANI: Yes, thank you. So, you
14 know, I think there were six factors to consider.
15 And I think if you go back to when the first MAT
16 application was filed the factors are clearly --
17 you know, they're very subjective and so it leaves
18 a lot of interpretation. It's a one-sided filing
19 by the venue without really any incorporation of
20 market feedback or regulatory oversight. So that
21 I think was a reason. So I think some people may
22 remember, I think we filed, you know, the second

1 MAT application and I think the reason we filed it
2 as narrowly as we did is because, you know, there
3 is a lot of barriers, there are a lot of hurdles
4 to actually onboard, and so from our perspective
5 filing a very thin MAT application would give both
6 the dealers, the buy-side, and the venues an
7 opportunity to actually onboard rather than having
8 a rush of, you know, a flood of activity.

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

15 MR. MCGONAGLE: So, Sunil, I'd -- so I'm
16 jumping because you said I could jump in. You
17 know, you mentioned the technology. I think one
18 of the questions that had come up during the
19 initial MAT filings were was the market prepared
20 -- either market participants or buy-side prepared
21 to come in, but in particular were the SEFs able
22 to handle the business. And, you know, just in

1 your reaction about how the SEFs handle the
2 business and, Doug, you can lift your thing too
3 because I -- when those MATs were filed and, you
4 know, responding to those comments we did -- you
5 know, we proceeded with some staging, but we
6 didn't put off because of questions or concerns
7 about the technology capability of the facility.
8 So I wonder what opinions are there.

9 MR. HIRANI: Yes, so, you know, look I
10 think certainly today, you know, venues like truEX
11 can handle a broader set of instruments than what
12 is currently MAT'ed. But I think there is another
13 dimension which is on boarding of the dealers. So
14 in two and a half years, you know, we have only
15 been able to -- and just in the beginning of this
16 month, two of the top five dealers -- and then in
17 two and a half years three of the top five
18 dealers, so we're still missing two out of the
19 five dealers. In aggregate we've been able to
20 onboard seventeen. So it is a long process and part of
21 it was we did our MAT application knowing it was
22 going to be a longer process, and because if you

1 MAT everything, you know, you're not going to have
2 a competitive marketplace because all the business
3 is going to go to the incumbents and there won't
4 be an opportunity for, you know, competitive
5 venues to exist. So that -- you know, and even
6 today I don't think we certainly feel comfortable
7 to file any additional MAT applications because we
8 don't have all the top five dealers. I think
9 Kevin I think made a point, the huge concentration
10 in these markets with the top five dealers and so
11 I think, you know, when we have an additional
12 three dealers I think we would certainly feel
13 much, much more comfortable to consider it. But
14 we are certainly not in a rush to file any MAT
15 applications at this point, even though our
16 technology can handle any currency, any date, any
17 number of line items, near risk, old risk, you
18 know, any combination there. Just because we're
19 technologically ready does not mean the dealers,
20 you know, are ready or the buy-side have the
21 resources to code up to everything.

22 MR. SMITH: I'll go to Doug to respond

1 to Vince's question and then I'll come to Dexter
2 to respond to the original question.

3 MR. FRIEDMAN: Thank you for the
4 opportunity to be here. When Tradeweb was
5 assessing their MAT submission we were looking --
6 and we had the benefit of looking at our
7 historical swaps trading since 2005. And we took
8 the responsibility of filing our MAT very
9 seriously and we also -- what we focused on is
10 what were we offering electronically already, what
11 was being readily priced and traded
12 electronically, and applying that to the six
13 factors that were there. And so we were in
14 essence assessing our own technological
15 capabilities as a barometer for what we thought
16 was readily available and ready to be traded in a
17 mandatory fashion. And we also were offering --
18 we offer electronic trading in a wider set of
19 instruments than we submitted for MAT, but when we
20 looked at the historical data and saw what was
21 most actively and readily traded, that was what
22 sized the list for us. And so I do think

1 assessing the SEF's technological capabilities is
2 extremely important because in some ways it's
3 telling about what the marketplace may be ready
4 for, and I think when we did it we also looked at
5 all six factors, not just one as any deciding
6 factor on what we were going to MAT. And so I
7 think it's important and, you know, we'll
8 obviously talk further today about ways in which
9 the process can be improved. But we also beyond
10 the six factors looked at hit rates, we looked at
11 quote ratios, we looked at time to respond, time
12 to quote. And so it wasn't just the six factors
13 that were important to us, we wanted to make sure
14 that there were other metrics behind it that made
15 sense.

16 MR. SMITH: Dexter?

17 MR. SENFT: I think it's easy for many
18 of us on this table to trivialize the process that
19 occurred a couple of years ago when you at the
20 Commission had to figure out a place to start. I
21 was sitting in this room, possibly in this exact
22 seat, you know, predicting that the MAT rules as

1 described were going to lead to a race to the
2 bottom and everything would be MAT'ed and it would
3 be utter chaos. And exactly the opposite has
4 happened. So we've had consequences that, you
5 know, some of us after giving it a lot of thought
6 were just plain wrong about. So, look, I applaud
7 the Commission for starting someplace, but I
8 further applaud the Commission for bringing it
9 back to the table because we now have real
10 experience in the market, we've seen what happens,
11 we're in a better place to predict where things
12 will go if we tweak something, and I look forward
13 to getting into that dialogue.

14 MR. SMITH: Thank you, Dexter. Angela?

15 MS. PATEL: I want to comment on
16 something Sunil had raised with regards to the
17 availability of technology. It's all well and for
18 the SEFs to be ready to trade and for them to have
19 some connectivity to the dealers, but without
20 involving the asset managers, customers, CCPs, and
21 FCMs in the process it's impossible for us to be
22 ready without chaos on day one. So while there's

1 not been utter chaos I would argue that the
2 initial launch of interest rate swaps and MACs,
3 spot starting swaps, there was chaos because
4 dealers didn't know how to price them. And as we
5 continue to move forward and we see package relief
6 coming up I think that the package relief that
7 came up in May is a good example of the SEFs
8 having the technology for the swap leg, but not
9 having the technology available for the other two
10 mortgage-backed asset legs that we're supposed to
11 be trading in package space. So right now,
12 Tradeweb actually recently allowed us the ability
13 to trade pools so we could trade pools versus a
14 spot starting swap, and we can trade TBA versus a
15 spot starting swap. We cannot trade CMOs, which
16 were impaired by the fact that they can trade as a
17 package. Moreover at the dealer community they
18 want to price them all as spots because it's
19 easier for their TBA desk. So we have lost the
20 ability to trade a MAC coupon with any
21 mortgage-backed package.

22 So I think that when we're looking at

1 the process and what needs to be happening, the
2 treatment of packages has to be evaluated and
3 looked at in terms of units of risk, rather than
4 taking an asset that can on its own trade well in
5 an electronic environment and then pairing other
6 assets that are associated with it.

7 MR. SMITH: Ed?

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

18 In terms of the additional factors, the
19 technical abilities we completely agree with.
20 Spoke with many dealers and it's not only the
21 technical capabilities of the SEF themselves, but
22 also the market participants and the various

1 market enablers that are part of the swap chain
2 that will determine whether or not the launch of a
3 new MAT product is going to happen on the smooth
4 MAT or not.

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

21 MR. SMITH: Thank you, Ed. Arthur?

22 MR. LEIZ: So going back to Vince's

1 question about readiness from a technology
2 perspective. I think that there is a lot lost in
3 translation when you speak to specific SEFs about
4 their readiness. And I mean no disrespect to the
5 SEFs sitting alongside me, but I think that they
6 tend to portray a rosy picture of their readiness
7 and the market's readiness. What I would call
8 readiness is having a minimum number of dealers
9 connected to their platform systematically,
10 whether it's via an API, to be able to price the
11 instruments that are coming across real time,
12 copying and pasting, you know, the instruments out
13 into a spreadsheet to bring into their risk
14 system, that's not systematic. That's really just
15 -- might as well be using Bloomberg, you know, IB.
16 So I also think that you need to ensure that the
17 buy-side is connected. What we found is that the
18 resourcing that it takes to get every single
19 instrument -- and it's not just, you know, broad
20 brush IRS versus CDS, it's IRS, it's dollar, euro,
21 yen, sterling, and so on. Each one of those, you
22 have to ensure that messaging protocol matches

1 what you're intending to trade. It's quite a bit
2 of testing and it's a lot of resourcing on the
3 technology side to make sure that we're ready.
4 And I think that, you know, MAT applications need
5 to be viewed from that lens as well in addition to
6 the other criteria.

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

10 MS. CAVALLARI: I don't think what
11 Arthur and Angela said can be overemphasized
12 enough in terms of the readiness, specifically the
13 buy-side. And I want to sidestep sort of the
14 issue of whether or not SEFs pose a rosy picture
15 in terms of what they're capable of for a moment,
16 just dealing with specifically the readiness on
17 the trading desk that I am a part of. To Arthur's
18 point it's just -- even if we're trading
19 electronically you're talking about bringing
20 something into a SEF environment where there are
21 more checks and things that need to be done in
22 terms of connectivity and making sure that we're

1 compliant with all of the rules. And that is in
2 the beginning days -- Angela alluded to the chaos
3 -- I just wanted to make it through the first six
4 months of SEF trading without having to deal with
5 an issue either from the executing broker, the
6 FCM, the SEF, Russell's own internal trading
7 platforms. I just wanted one error that I had
8 already seen before so I knew what to do, which
9 isn't to say that we didn't get to where we were
10 all supposed to be going. But it was a heavy
11 lift. And so anytime we're adding a new account,
12 a new type of instrument, you know, we go through
13 the same sort of -- we call it a SWAT team for the
14 SEF and swap process. That's a lot of acronyms,
15 but all together it's a lot of people coming
16 together to make sure that that can move smoothly.
17 And that's because we're at the ground floor of
18 where the rubber hits the road, and sometimes that
19 can be difficult. So we're not in any hurry to
20 necessarily add instruments to that process unless
21 they are already liquidly traded on our current
22 platforms that have desktop real estate and that

1 we feel are appropriate for that environment.

2 MR. SMITH: Thank you, Lisa. Vincent?

3 MR. JOHNSON: I just wanted to quickly
4 address in taking some of the comments by many of
5 the other panelists to show that I think there are
6 a lot of various views, and this is something from
7 ISDA that was addressed in the petition filed last
8 month for more of a pushing to allow market
9 participants, all market participants to
10 participate in the process. I think you hear
11 there are various issues that are addressed in
12 here and I think if there is a process, you know,
13 with the various criteria about the technology
14 perhaps certification from the SEFs on their
15 capability to handle the transactions, and when
16 you take that -- and I'll be pushing for probably
17 at a later point for the Commission to make that
18 decision on the SEF's, but part of that decision
19 making process is to make sure that the public has
20 an ability to comment on and process. And I think
21 the more information that the SEFs can provide
22 during their determination, and that part of that

1 SEF determination with that information going back
2 to the Commission and analysis and being released
3 so the public can comment on it will help the
4 process.

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

11 Stephen?

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

19 So just setting aside for a moment the
20 question about whether the MAT determination
21 should apply on the outright or package level,
22 which is a topic that I think we'll probably get

1 into a little later, I actually do think it's fair
2 how the language is currently constructed. I
3 don't read the language to say that you could only
4 choose one and run with it. I think you have to
5 consider all six and I think most of the MAT
6 applications that came in did. And I also think
7 that there are circumstances in which there are
8 some that are more relevant than others. So I'm
9 generally comfortable with it. I completely agree
10 with, you know, Vincent's comments here that the
11 public comment process that existed the first time
12 around was vital in terms of refining things and
13 getting it right. It's not clear, and I think
14 we'll discuss this later, what authority the
15 Commission had in that of the comment period to go
16 back and change the MAT applications, but at least
17 the way it panned out, MAT applications were
18 revised subsequent to the public comment process
19 and the market dialogue that ensued. I think it
20 would be helpful to formalize that and I know that
21 there are two different mechanisms that can be
22 used by the SEFs to do their rule filings and

1 different actions that the Commission can take to
2 trigger that comment period, but it would be
3 worthwhile I think refining the process to ensure
4 that comment period can occur.

5 Just to kind of give a little more
6 context to the comment I made about, you know, the
7 "as appropriate" and why some factors may in certain
8 instances be appropriate and in others not be
9 appropriate. I think if you look at something
10 like, you know, the first factor talks about ready
11 and willing buyers and sellers, and then the
12 second two are more around historical trading
13 volume. And I think you do have products in the
14 swap marketplace where there are, you know,
15 continuous bids and offers being quoted, either
16 firmly and indicatively and there's an ability to
17 trade the product at any given point in time, even
18 during times of market dislocation, but it could
19 be a product that just happens to not trade, you
20 know, 100 times a day, right. So you do have
21 instances where, you know, there is adequate
22 liquidity, even if there's not, you know, tons of

1 trades occurring that product each. I think the
2 bid-ask spread one can also cut both ways.
3 Sometimes wider bid-ask spreads are indicative of
4 the fact that there's not enough competition in
5 the trading of a given product, not that the
6 product is illiquid. And, you know, the last
7 criteria that talks about resting firm and
8 indicative bids and offers, in the swap
9 marketplace today I don't think there are firm
10 bids or offers, you know, out there that are
11 accessible, at least on the D-to-C platforms.
12 Almost everything is quoted on an indicative
13 basis.

14 So that said I think people have already
15 identified a number of additional factors that are
16 other ones that could be added as important
17 considerations, but I don't necessarily favor
18 changing the "or" to an "and," and saying that all six
19 have to be surpassed in every instance, and that we
20 should have objective numerical thresholds for
21 every single one, et cetera. I don't think that
22 provides the flexibility we'll need going forward.

1 MR. SMITH: Thank you, Stephen. And we
2 will go to Dexter and then Tom.

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

22 MR. BENISON: So just going back to

1 Steven's comments and Vincent's earlier on public
2 comment, we would agree it's important to have
3 time for public comment on this. In terms of
4 which factors should be considered I think
5 whatever set of factors are finalized and decided
6 on, and I would agree with Dexter that looking at
7 having more than one SEF trading is important --
8 more than one platform trading is important, you
9 should analyze all the factors. And to Stephen's
10 point, you may analyze one factor and say, you
11 know, while on its face maybe this factor doesn't
12 look like it is too supportive, there may be a
13 reason why in the case of a particular swap that
14 factor doesn't matter as much, but the analysis
15 should be done, and hopefully done with, you know,
16 as much objective data as possible.

17 And I think, you know, the last point I
18 would make is to the extent you're applying, you
19 know, for one decision across a group of swaps I
20 think you want to make sure that the factors are
21 consistent across that group of swaps so that you
22 wouldn't have, you know, swaps where there was a

1 variety in terms of each factor of how it applied.

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

10 MR. BENISON: Yes, so I think the one
11 was already mentioned about how many platforms is
12 it available to trade on. We think that's
13 important. Well, I shouldn't say available to
14 trade, but is it actually trading on. I also
15 think changes in liquidity through the cycle. So
16 when you're looking at liquidity often times
17 you'll we'll see in a product you might have a
18 spike in liquidity for a certain period of time,
19 and then that liquidity goes away. I'm not sure
20 what you want to have is, you know, a product
21 popping on due to some unique factor that's
22 causing liquidity in that time and then have it

1 drop off later. So having some understanding of
2 how that's going to -- you know, is it going to
3 maintain that liquidity over time before it's
4 MAT'ed.

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

15 MR. MCGONAGLE: So there was some
16 commentary in the MAT preamble that talked about
17 if you're looking for liquidity factors, wouldn't
18 necessarily focus on your platform if you're a
19 SEF. They're looking at transactions as they
20 occur on other platforms, but also transactions
21 occurring OTC. And in order to help gauge
22 liquidity, the conversation has been focused more

1 on what trading we're on on-SEF. I'm just curious
2 as to evaluation of trading activity occurring
3 away from the facility historically in making a
4 determination or submission for consideration that
5 a product should be MAT.

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

14 MR. SMITH: Thank you, Tom. Arthur?

15 MR. LEIZ: I believe the Commission
16 asked for public comment on whether a listing
17 requirement was necessary and I would argue, and
18 ultimately I believe you determined that it
19 wasn't, but I would argue that a listing
20 requirement ahead of a MAT application, meaning a
21 listing of a product on a SEF ahead of a MAT
22 application should be a requirement. It would

1 demonstrate that the SEF is capable of handling
2 connectivity, the instrument, and the trading
3 protocols. And it would also allow the Commission
4 to evaluate, you know, whether this instrument
5 potentially should be MAT'ed. I think it's
6 interesting to look at volume profiles for these
7 products outside of electronic trading, but I
8 would almost argue that, you know, we should be
9 looking solely at the volume profiles of the
10 products as they're electronically traded because
11 that's going to be how we're going to have to do
12 this going forward rather than, you know, OTC
13 bilateral. So I would argue for a listing
14 requirement of -- you can put an arbitrary number
15 on it -- six months.

16 MR. SRINIVASAN: So just to sort of
17 follow up on your comment. So currently we have a
18 bifurcated market structure. That's the wholesale
19 market and the sort of the D-to-C market. And
20 from what we understand the wholesale market is
21 through voice. And so the electronic market, you
22 can get this decent data which can be acquired.

1 So how do we sort of assess liquidity? So in the
2 sense -- because in -- we can't see the depth
3 that's there in the voice platform, so you have
4 any thoughts on how do we assess liquidity in the
5 market?

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

13 MR. NGUYEN: I have a question that
14 sort of touches on some of the comments that have
15 been made so far about the technological readiness
16 of the SEFs and the technical capabilities. And,
17 you know, a lot of the commenters, a lot of you
18 have said that something ought to be taken into
19 consideration, but I guess underlying that there
20 are I guess many different things we can look at
21 in terms of assessing, you know, the technical
22 capabilities. And obviously based on your

1 experience and sort of the transition and perhaps
2 some of the difficulties that you've face so far,
3 you know, is there a way to come up with sort of a
4 concise list of what exactly we, you know, might
5 look at when we're considering or, you know, a
6 submission needs to take into consideration what
7 at SEF is ready to do?

8 MR. SMITH: Angela?

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

1 -- and maybe you can translate that into a list,
2 but I think looking at what is being done manually
3 or pulled out of an automated process is where
4 you're going to find then I guess bugs or problems
5 in the system.

6 MR. SMITH: Thank you, Angela. Ed?

7 MR. TSAI: And to, you know, add to that
8 point I think the interface that these SEFs have,
9 you know, it could be either GUI or API, and
10 depending on the SEF they may allow access to
11 different market participants based on GUI or API.
12 But if it's like a GUI it's going to have that you
13 have to pull the data manually from the GUI into
14 whatever system. And then when you have an API
15 you have to build that connectivity, it has to
16 operate with your system, and that takes time. So
17 those are all, you know, things to consider for --
18 as I said the illusion of straight-through
19 processing, to look past that and make sure it's
20 real.

21 MR. SMITH: Thank you, Ed. Lisa?

22 MS. CAVALLARI: I agree with Arthur in

1 the point about a listing requirement in terms of
2 potentially being associated with a number of
3 months before it becomes MAT. I think that is
4 important to help the runway of getting something
5 MAT'ed and actually treated viably on SEF.

6 I'd also like to point out that it's
7 perhaps instructive to look to where there are
8 examples of things that are not listed for
9 clearing right now and are not MAT'ed, but are
10 actually, you know are being traded on SEF -- I know I
mentioned this on
11 the SIFMA AMG FIA asset managerpanel several months
12 ago, but EM CDX, we at our firm choose to clear it
13 for certain clients and it's not a mandatorily
14 required cleared contract, it is a standardized
15 contract and we actually do trade, depending on
16 the size, that on SEFs. So you may be surprised
17 where the market is gravitating towards places
18 where I think from a policy standpoint you want it
19 to go, but I would also highlight with that
20 particular comment that it would be very
21 interesting, and this really brings together the
22 narrative that several of the panelists have made

1 that looking at the data of what's available in
2 the OTC market and what's trading and then
3 comparing and contrasting that with the listed
4 information available in terms of how much
5 electronic trading is going on in a particular
6 product before you get to MAT, it's going to be
7 very interesting to thread that needle and
8 actually get closer to narrowing the subset of
9 potential products that are MAT'ed.

10 MR. SMITH: Doug?

11 MR. FRIEDMAN: So I think one thing that
12 when we talk about readiness, and we've seen this
13 with the package relief and frankly the phasing in
14 of the packages, one of the things that we learned
15 in the initial MAT determination was that by
16 designating something for MAT it did not protect
17 it from packages not being MAT. And so it was
18 actually up to the CFTC to take it upon themselves
19 to phase it in that the SEFs couldn't choose to
20 only MAT outright and not for example MAT
21 packages. And I think that's a big issue because
22 one of the concerns about any additional MAT would

1 be what it means to the package world, and the
2 SEFs don't have an ability to say we only want to
3 MAT outright, don't MAT the packages that are
4 associated with those other legs. And in the
5 absence of that -- and packages trade very
6 differently obviously and there are a lot of other
7 different factors how they trade and, you know,
8 mortgages versus swaps and swaptions trade a
9 lot differently than, you know, spread trades.
10 And so the readiness ranges depending on the type
11 of instrument we're talking about, and I think
12 it's important for the CFTC to address that
13 component for any other -- whatever consideration
14 they make in terms of changing the MAT process.

15 MR. SMITH: Thank you, Doug. I had a
16 follow up to your previous statement about when
17 you made your MAT determination you considered
18 factors outside of the six factors we had. Of
19 those factors you considered were there any in
20 particular that you thought were really crucial
21 that we should maybe consider being added to the
22 current factors?

1 MR. FRIEDMAN: You know, it's hard for
2 us to I guess opine that you should be including
3 hit rate or, you know, quotation ratio, and a
4 quote ration, and time to respond, but we viewed
5 those all as very good barometers of how readily
6 -- actually if you want to talk about buy-side and
7 sell-side readiness, that was a very good indicate
8 to us of how ready they were to trade a particular
9 instrument. You know, again the package piece
10 gets much more complicated, but just for pure
11 outrights, looking at plain vanilla, you know,
12 spot-starting stuff, it was easy to take those
13 metrics and say people are readily trading this.
14 Whether they wanted to do it as an RFQ-to-three,
15 you know, is a whole other sort of series of
16 considerations, but we knew that those were being
17 readily priced and they were being actively traded
18 and those were good benchmarks. If you're looking
19 at voice, you may not be able to obviously measure
20 that as well. And so again I think these were
21 important factors for us to layer on in terms of
22 what we viewed as a responsibility to MAT

1 responsibly, but I can't tell you that it
2 definitively has to be part of an additional
3 number of factors.

4 MR. SMITH: Thank you, Doug. Vincent?

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

19 MR. SMITH: Thank you, Vincent. The
20 next question is, is should a MAT determination
21 take into consideration how other jurisdictions
22 are applying mandatory exchange trading

1 requirements to the swap?

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

10 MR. SMITH: Thank you, Bill. Ed?

11 MR. TSAI: So international
12 harmonization of regulatory rules applying to
13 swaps has been not something sought after by the
14 industry. Swaps are an international market, they
15 have been historically, and the concern now is
16 that whether or not regulation will continue to
17 promote global liquidity pool for swaps or break
18 it up. Obviously the benefits of international
19 consistency are reducing operational complexity
20 amongst all the various market participants,
21 reducing regulatory complexity, which leads into
22 operational complexity, having larger liquidity

1 pools which is better for reducing systemic risk and
2 absorbing shocks. In terms of the MAT
3 requirements or the MAT determination, the
4 international harmonization is probably predicated
5 on a couple of issues that precede the MAT
6 determination question, and one of those is the
7 mutual recognition of the exchange platforms. For
8 example, the mutual recognition of MTFs in Europe
9 for example which there's a QMTF regime that the
10 CFTC put out, the pick-up on that might have been
11 limited. So we would encourage that the CFTC
12 continue to work towards trying to figure out ways
13 to encourage mutual recognition among
14 international regulators because unless you have
15 that mutual recognition then you won't really have
16 the ability to trade on different platforms.

17 In addition the form of required
18 execution of MAT'ed swaps in the U.S., we have the
19 RFQ-to-three and CLOB requirement for required
20 transactions that have been MAT'ed. I understand
21 that in Europe they may not be going in that
22 direction. So the MAT determination itself, if it

1 occurs within the U.S., will lead to a very
2 different type of trading and a restricted type of
3 trading which may not necessarily apply in other
4 jurisdictions. And so these are all the factors
5 that need to be considered before one actually
6 determines, you know, what are the swaps that are
7 going to be mandatorily traded on SEF platforms
8 and to be made consistent internationally.

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

16 MR. TSAI: Well, the requirement to
17 actually trade on the SEF itself, the impact of it
18 is going to be determined on what kind of trading
19 is permitted. So if effectively the platform
20 allows any form of execution, it probably does not
21 alter the mode of transaction that much because
22 here in the U.S. with the CFTC requirements it

1 limits the mode of execution. It's not exactly
2 apples and oranges, so we would have to really look
3 at just because someone else is doing something in
4 another jurisdiction is it actually equivalent to
5 a MAT determination here in the U.S.

6 MR. MCGONAGLE: So informative, but not
7 dispositive?

8 MR. TSAI: Right.

9 MR. SMITH: Thank you, Ed. Stephen?

10 MR. BERGER: Just to weigh in on this
11 point, I think that in the long-term certainly
12 it's important that we have a mechanism to ensure
13 alignment of the scope of the trading obligations
14 in different jurisdictions, and so I think maybe
15 we'll be getting into a discussion later on about,
16 you know, who else might be able to trigger a MAT
17 determination or to, you know, effect that. So
18 that I think will speak to a need for the
19 Commission to have a role in it as well, and I
20 think probably as we heard earlier in the day, you
21 know, ESMA is the one that's going to be doing
22 liquidity testing in Europe to come up with the

1 scope of products that are subject to the trading
2 obligation. So there is value in having a
3 mechanism to align that. I think that's a
4 different statement than to say that we should,
5 you know, be waiting in our jurisdiction for
6 others. I don't think, you know MiFID II comes
7 into effect in January 2017 and I don't think
8 anyone is suggesting we should have been waiting
9 that long before starting SEF trading here in the
10 U.S.

11 I think that just, you know, as a side
12 comment, the narrative around liquidity
13 fragmentation I think is quite overstated. Our
14 funds trade with the same set of liquidity
15 providers on-SEF today as they did off-SEF, you
16 know, two years ago, so there hasn't been any
17 change I think from the buy-side's perspective in
18 terms of who you're able to trade with. Most of
19 the commentary or analysis has been done with
20 respect to liquidity fragmentation, has been very
21 narrowly focused on the interdealer market and
22 has only looked at trades being done on LCH in IRS

1 and looks at the legal entity, you know, what
2 country the legal entity is incorporated in. So I
3 think that yields kind of a perverse outcome when
4 you're looking at whether liquidity has fragmented
5 or not. It used to be when, you know, if our fund
6 was trading with a given counterparty in the
7 sterling or euro market we were interacting with
8 -- you know, and that trade was being booked to a
9 counterparty entity in the U.S., some
10 organizations are now booking those trades in a
11 London entity. And so what happens is there is
12 now a cross-border trade that's occurring between
13 our funds that are U.S. persons and an entity in
14 London. So there is a cross-border trade
15 happening, but that's not showing up in the data
16 set that's being used to claim there is liquidity
17 fragmentation, because now the interdealer side of
18 that trade is between two entities based in
19 London.

20 So I do think we have to take a closer
21 look at this liquidity fragmentation narrative and
22 not let it cloud the policies we are pursuing.

1 And I think there have been constructive solutions
2 in the marketplace that have emerged. I know ICAP,
3 for example, has a duly-registered SEF MTF and it
4 moved all their dollar swap liquidity into that
5 entity which provides a single trading platform
6 for U.S. persons and non-U.S. persons to interact
7 in that marketplace. That's potentially a path
8 forward. I know that's more the dual registration
9 route than the substituted compliance route, but I
10 think there are ways forward that the market is
11 going to gravitate to over the next few years to
12 solve these types of challenges.

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

15 MR. SENFT: I just wanted to be
16 responsive to Director McGonagle's last question.
17 When we compare ourselves to the rest of the world
18 -- let's just assume that's one thing, the rest of
19 the world -- there are two cases where we're not
20 concerned at all. Either neither of us makes it
21 mandatory or both of us do, so we don't care about
22 those cases. That leaves the two others. If we

1 mandate and they don't, but we're doing it based on
2 a good rule set that the market has weighed in on
3 and in some cases even put quantitative factors
4 on, I think we stand by it. I don't think there's
5 any remorse if we've had a good process and the
6 rest of the world doesn't have that process. So
7 the only case that really is cause for potential
8 concern in the one that you mentioned, which is
9 well what if they're mandating and we're not.
10 It's definitely cause for investigation. Is it
11 because they're market is different and they've
12 got different kinds of participants that we don't
13 have, is it really that illiquid in our market that
14 it doesn't rise to the level. So it's definitely
15 cause for further investigation, but not in and of
16 itself something that I would say is
17 determinative.

18 MR. SMITH: Thank you, Dexter. Ed?

19 MR. TSAI: I'd like to just address some
20 of the comments that Stephen made. Completely
21 agree that further investigation of the impact on
22 global liquidity for these -- and cross-border

1 liquidity in terms of these MAT determinations is
2 warranted. We welcome further investigation of
3 it. I do wonder though that if the observation
4 that there is no liquidity impacts or cross border
5 liquidity impacts maybe from the perspective of
6 end users because dealers and liquidity providers
7 tend to bring their international operations into the
8 U.S. and make themselves available in the U.S.,
9 whereas the liquidity providers who are looking to
10 access liquidity on a cross border basis in order
11 to make markets, they may be the ones that are
12 seeing challenges on the liquidity area cross-
13 border wise.

14 MR. SMITH: Thank you, Ed. Stephen?
15 (Laughter) The next question is should MAT factors
16 be quantitative in nature? If so, then what are
17 some examples of appropriate thresholds? And I
18 will start with you, Dexter.

19 MR. SENFT: Okay. So you could probably
20 tell by my last response that we think there can
21 be some thresholds. We wouldn't get carried away.
22 A lot of the factors aren't necessarily

1 subjective, but there are a few where we think you
2 can put some numbers on it and I've already
3 mentioned two. We think it's really important to
4 have multiple SEFs trading a product. The right
5 threshold there is two. It's really important to
6 have multiple liquidity providers; the right
7 threshold there is two. The only other things
8 we've put numbers on are something -- I'm not sure
9 it's come up yet, but we think that there should
10 be outstanding cleared amounts of the product at
11 the CCPs. This provides a set of natural buyers
12 and sellers. These are people who already have a
13 position one way or the other. They would be
14 looking to increase or decrease that position and
15 equity markets have shown us that the existence of
16 naturals in a marketplace is a good thing. What's
17 the right amount of natural interest? We would
18 say ten times the average daily trading volume.
19 Count one side when you're doing that calculation.
20 And we would also put a threshold on average daily
21 trading volume. We would say at least 100 million
22 notional average per day, look back 30 days for

1 that determination. Now I would apply that only
2 in the rates market. The credit market the rules
3 basically put new series on as soon as they come
4 out. We think that's perfectly appropriate. So
5 that 100 million notional average per day is rates
6 only.

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

9 MR. BENISON: Thank you. So I would
10 agree with Dexter that quantitative analysis is
11 important. We think with quantitative analysis
12 across the factors, you know, you really get a
13 grip on an objective way of looking at the
14 criteria. We hadn't put together the numbers that
15 Dexter has, but I do think it's important that
16 when you're coming up with a quantitative analysis
17 you have a clean set of data that people agree on,
18 whether that's SDR data or CCP data. I think what
19 you want to make sure is that the people putting
20 forth the application, the people analyzing the
21 application, the people maybe putting in public
22 comments, if we have that, are looking at the same

1 set of data to do the analysis so they're not all
2 talking about sort of a discreet population that
3 they have somehow -- think is the important piece
4 of it.

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

12 MR. SMITH: Thank you, Tom. Ed?

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

1 would be useful.

2 MR. SMITH: Thank you, Ed. Arthur?

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

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

20 MR. LEIZ: Five, yes. And just a
21 general comment. You know, I'm not sure we'd be
22 sitting here talking so seriously about MAT if it

1 wasn't for the prescriptiveness of the trade
2 protocols. I don't mean to digress, but I've been
3 trading OTC fixed income derivatives for my entire
4 career and I've seen a tremendous amount of
5 innovation, both on the product side and the
6 market structure side, and it's discouraging to
7 see that we're going to see no further innovation
8 on the trade protocol side because of the
9 prescriptiveness.

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

16 MR. SMITH: Lisa?

17 MS. CAVALLARI: You potentially might
18 want to think about looking -- maybe it's by
19 product. I'm just thinking contemporaneously here
20 because of seasonality surrounding certain
21 contracts and roll periods. It may be more
22 appropriate for some -- I'm just thinking

1 commodity -- to look at more than six months of
2 data. But even looking at whether it's a year or
3 two or since data was required to be reported, I
4 think all of that helps to provide information and
5 clues in terms of what's happening in the
6 marketplace.

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

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

22 MR. SMITH: Thank you, Tom. Dexter?

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

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

18 MR. SENFT: Well, I led off saying that
19 I put numbers on four things, so two SEFs, two
20 liquidity providers, ten times average daily
21 volume cleared outstanding, and ten times average
22 daily trading volume, and 100 million notional

1 average per day. We would look back 30 days or
2 something simple. Again that's just for rates.
3 So those are it. If they go above that line let's
4 MAT them, if they go below that line, let's de-MAT
5 then.

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

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

11 MR. SMITH: Okay. Thank you. Stephen?

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

20 MR. SENFT: You were looking straight at
21 me so I'll assume that was directed at me. I
22 think that's for the -- I think there are two

1 subparts to that question. As the process exists
2 today it would be the SEFs would have to answer
3 that question. Would that help break the barrier
4 that seems to exist in making further MAT
5 determinations? We have some SEFs here, let them
6 speak. But I also know that one of the questions
7 you haven't asked yet is who should make MAT
8 determinations or MUT determinations. So I'll
9 just wait until you get to that point.

10 MR. MCGONAGLE: Perfect punt. Thanks.

11 MR. SMITH: Stephen?

12 MR. BERGER: On the data front I think
13 that this points out is some of the limitations of
14 the SDR data for what we're trying to do in this
15 exercise. So if I just look at the six factors
16 that are currently, you know, on the books,
17 clearly based on the SDR data we can look at the
18 frequency and size of transactions and we can look
19 at the trading volume, which are the second and
20 third factors. You can get some indication of the
21 number and types of market participants, but not
22 with any level of specificity that I think would

1 be informative there. And then you would get
2 nothing on whether there are ready and willing
3 buyers or sellers, you would get nothing from the
4 SDR data on the bid-ask spread, and nothing on the
5 usual number of resting or firm indicative bids
6 and offers. So we need a data driven approach. I
7 think a lot of these additional pieces of data are
8 available from the venues and could be collected.
9 And I actually don't know to what extent they are
10 and/or if they are, are made public, but there's
11 certainly a lot more transparency that we could
12 get into what's happening in this market and that
13 we could make available and that I think would
14 inform our policymaking decisions. And starting
15 with figuring out what data we can collect from BM
16 market participants, the trading venue, or others
17 to have a good view of each of those six factors I
18 think is an excellent start.

19 MR. SRINIVASAN: So I had a question on
20 this solution that there should be at least five
21 market makers on the SEF that is making the
22 submission. I'm concerned about whether there

1 will be sort of an entry barrier for a new SEF,
2 right. So the sense that if I'm looking at Sunil
3 here, he's new to the business, he doesn't have an
4 existing order flow, and how do you go about --
5 I've been in the business of developing new
6 markets in that trade space and there's a chicken
7 and egg thing, right. So firms will say, you
8 know, call me when the future space open interest
9 hits 5000 contracts, okay. So there is an
10 issue of, you know, on one hand I won't get firms
11 signing on as even buy-side connectivity platform
12 and sell-side also saying as the market maker,
13 where the does the customer flow that's coming in,
14 so I don't have an existing business, I don't have
15 order flow, so how do we sort of -- I'm concerned
16 about this five market maker rules as preventing
17 -- sort of basically setting up an entry barrier
18 to the execution business? If you could talk
19 about that.

20 MR. LEIZ: So the SEF landscape is
21 competitive obviously and there is some innovation
22 in terms of their platform, the way they're

1 connecting, so I would say that if a platform is
2 decent and attracts the interest of the buy-side
3 and we want to trade on it, I'm going to be vocal
4 about that and I'm going to let my dealers know
5 that this is a platform that I want to start
6 trading on. You know, it's just a natural
7 evolution of how things work in our marketplaces
8 that, you know, there is buy-side and sell-side
9 interests and, you know, at times the sell-side
10 drives the interest and at times, you know, the
11 buy-side drives the interest. I would say though
12 that if you have too few dealers on there you're
13 handing them a virtual monopoly potentially on a
14 MAT'ed product, and their ability to market make.
15 So I personally would rather have more choices
16 than less when dealing with a specific instrument
17 on a SEF.

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

20 MR. HIRANI: So, you know, we had the
21 luxury of starting with zero. So that was a nice
22 round number. And so if there was a threshold of

1 five, you know, we would have never been able to
2 convince our first one or the second one or the
3 third one to ever do a transaction. So now we're
4 up to 17 dealers. As I said before we're still
5 missing two out of the top five dealers, and
6 that's actually okay because we've been able to
7 originate inquiry and to have just one dealer
8 respond when it was, you know, not a MAT
9 instrument. So I think, you know, as I think I've
10 already alluded to, there are significant
11 insurmountable barriers to these markets, and
12 there are only two legacy providers. And in 25
13 years, no new entrant has been able to make it into
14 the swaps market, obviously. So I think raising
15 the barrier, so that's really part of the reason
16 we don't want to file an additional MAT
17 application, because it will require the buy-side,
18 the dealers, everybody else to make further
19 investments in technology which will further delay
20 the onboarding process, right.

21 The other comment I was going to make, I
22 believe it was Dexter's comment, looking at data

1 which will mean that knowing your products, you
2 know, can be launched right away on technology.
3 So I think that's a bit of a design flaw. So
4 we've been able to convince people one by one.
5 And there was a time when were we able to do a
6 transaction with less than five dealers on our
7 platform, and that was actually okay.

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

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

1 in anonymity. And so because of that it's been
2 very difficult to kind of get a foothold.

3 MR. SMITH: Thank you, Wally. Dexter?

4 MR. SENFT: Yes, just I think there is
5 some clarification that needs to be made. One to
6 the point raised by Sayee and one by Sunil. It's
7 very, very important that the market encourage
8 innovation and competition. So whether the right
9 number for the number of liquidity providers is
10 two or five, there is probably some number that's
11 right, and what I'm saying is that that's the
12 number that somebody needs to have to file a MAT
13 determination. Now if trueEX only has one
14 liquidity provider, that's okay. Once it's MAT, it
15 doesn't mean every SEF has to have two liquidity
16 providers, it means that somebody did at least --
17 well, again in the interest of market resiliency
18 there ought to be two that have two, or there
19 ought to be two that have five, whichever number
20 the Commission thinks is right, but that doesn't
21 mean everybody has to have two or five. So we
22 don't want to discourage the new guys, the

1 trueEXes from coming in. Parenthetical comment,
2 trueEX is new to the market, Sunil is not.

3 (Laughter) The other thing is that we don't want
4 to stifle new product innovation so yes, I would
5 say we need some historical data to make a MAT
6 determination, but not to innovate with a new
7 product or to list it on a SEF.

8 MR. SMITH: Thank you, Dexter. Vincent?

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

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

13 MR. JOHNSON: Okay. About the removal
14 of the MAT determination. A little different from
15 Dexter and I'm just going to say -- and again this
16 has been addressed in the ISDA petition -- but the
17 thought about the process was that not only can a
18 SEF, but also SEF users could actually make a
19 request that a MAT determination be removed. And
20 then, rather than some threshold amount, our thought
21 was that it should be based on the initial
22 criteria. So whoever makes that request would

1 have to provide detailed explanation based on the
2 original criteria for that removal process. And
3 from the theme that we have again thought that
4 should be subject to public comment also.

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

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

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

20 Just one thing I'd like to comment on
21 which has kind of been touched on by a number of
22 the other panelists is, you know, the WMBA firms

1 have generally been successful based on the
2 technological innovations it's brought to the
3 market in helping provide liquidity. One of the
4 concerns we have is that once a product is
5 determined to be MAT that we're actually cutting
6 off potential modes of execution. But we really
7 think we should be actually promoting the
8 technological innovations and bringing that to the
9 market. So that's one concern we had when
10 something is actually determined to be MAT.

11 MR. SMITH: Thank you, Bill. Lisa?

12 MS. CAVALLARI: So at the risk of saying
13 something potentially unpopular here (laughter), I
14 do think the CFTC has a role in this. If you have
15 a role in clearing, then certainly a role in the
16 MAT determination. And I know that suggestion was
17 made, you know, in a number of comment letters
18 obviously before the actual final rules were
19 published -- by ICI and SIFMA AMG, just two
20 particular examples. But I sort of -- and at the
21 risk of creating more bureaucracy or more work
22 than potentially anyone thinks it's worth -- to

1 acknowledge what other panelists have said, it's
2 really I think a collaborative process perhaps
3 with something like a CFTC -- each have power. I
4 mean I think the exchanges, the DCOs, the DCMs,
5 the buy-side, the sell-side, and the SEFs
6 themselves can probably together make an
7 informative decision on that.

8 But I would also have to remark that
9 perhaps examining how we got here in a tip to
10 Commissioner Giancarlo's White Paper on SEFs, you
11 know, I'm working under the operating constructs
12 that we have in place now, like how can we make
13 what is in front of us better. That's not to
14 discount other people's innovations for how to
15 sort of rethink what a better way to do this
16 process could be, but based on what we have now, I
17 do think the CFTC has a role as well as other
18 industry participants in helping to make that
19 determination. And I wouldn't necessarily be --
20 again 17 months in I'm not necessarily convinced
21 that we aren't where we're supposed to be right now.
22 And perhaps it's too early to come to a definitive

1 conclusion on that topic.

2 MR. SMITH: Thank you, Lisa. I will go
3 to Arthur, Dexter, Wally.

4 MR. LEIZ: So there are two routes that
5 a SEF can attempt to MAT something, it's 40.5 and
6 40.6. Under 40.6 I would remove the self-
7 certification process, and in doing so, then you
8 might as well just remove 40.5 since they become
9 very similar. 40.6 allows for the public comment
10 which I think is crucial, but, you know, to Lisa's
11 point, I do believe it's a collaborative effort.
12 I think that potentially, and I don't want create
13 more bureaucracy, but a MAT determination advisory
14 committee made up of market professionals to help
15 you evaluate the merits of the application in
16 terms of the criteria, technological readiness,
17 connectivity, et cetera.

18 MR. SMITH: Thank you, Arthur. Dexter?

19 MR. SENFT: My answer is contingent upon
20 the existence of the MUT process, so just put it
21 in that context. But if we have the ability to go
22 both ways then I think it's appropriate to open

1 the MAT'ing process and the MUT'ing process along
2 with it. We would say -- well, look, the spirit
3 is you want somebody who understands the market,
4 has access to the right kind of information, to
5 make the determinations or at least to propose
6 MAT'ing. We think there are three of those.
7 There is the SEFs themselves, which we already
8 have, there is the Commission itself, and there is
9 a -- let's call it the trade associations
10 recognized by the Commission. So, you know, the
11 obvious candidate there would be ISDA, there are
12 perhaps some others, but we think that any of
13 those have the capability to do, you know,
14 rational proposals.

15 MR. SMITH: Thank you, Dexter. Wally?

16 MR. SULLIVAN: Well, I just don't -- I
17 think that it's not necessarily an either/or,
18 whether the CFTC or the SEFs, I think it should be
19 both. You know, I'm kind of looking forward and
20 if competition is released along with anonymity in
21 CLOBs, you know, my suspicion is that firms like a
22 Javelin may be prompted to MAT at a faster pace

1 than the CFTC potentially would. And so I would
2 not want to give up that ability.

3 MR. SMITH: Thank you, Wally. Ron?

4 MR. STEINFELD: Great, thank you, Roger.
5 Given the discussion we've had so far regarding
6 potentially moving to a harder quantitative
7 analysis when it comes to determining whether a
8 swap should be MAT'ed or not, the discussion kind
9 of falls away. It really doesn't matter as much
10 who is making the application if we're going to
11 look at a harder set of criteria in determining
12 whether the swap should be MAT'ed or not. Given
13 that it would seem to me to be more appropriate
14 that the CFTC could be the arbiter of what swaps
15 should be potentially MAT'ed or not given that if
16 we're just comparing the trading activity, the
17 liquidity profile of the swap to a certain preset
18 list of criteria, whether the SEF is responsible,
19 the CFTC is responsible, the swap MATs itself.

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

22 MS. PATEL: So I agree that a swap can

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

20 MR. HIRANI: So, you know, I mean if you
21 think about what happened the last time we had the
22 flurry of MAT applications, I think looking at

1 that and seeing what resulted, which I think a lot
2 of us on this panel would agree was the right
3 outcome, trying to formalize that in essence which
4 was the buy-side, the trade associations, the
5 dealers, and the venues had an opportunity to
6 interact with each other, had an opportunity to
7 give feedback to the Commission. And one possible
8 suggestion would be one -- you know, I'm going to
9 leave aside who can MAT -- but whoever those group
10 or groups can MAT, you know, there should be an
11 open public process that -- you know, put on a
12 board what are the criteria that should be
13 considered and let there be an open public debate
14 about the merits of the application. So everyone
15 who has a vested interest, not just the venues,
16 but the people who are the managers and the market
17 makers also have an opportunity in a public forum
18 to debate it. And like a lot of things it will
19 become pretty obvious if something should be MAT
20 or not. And in essence that's what happened in a
21 variety of serial meetings the last time.

22 Thank you.

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

2 MR. BERGER: So I think going forward it
3 would be advisable to have both a top-down and
4 bottom-up approach to the MAT determination
5 process. I think that's going to be the most
6 sustainable mechanism for the long-term. We have
7 that process in place with respect to the clearing
8 mandate today and I think it would make sense to
9 have some parallel process in place. I think that
10 still allows the SEFs to play the role of being,
11 you know, the ones closest to the trading, also
12 involved in trying to innovate, you know, list new
13 products for trading and bring volume onto their
14 volumes. So it would allow that to still occur,
15 but I think it provides, you know, the Commission
16 the ability to weigh in appropriately as well. I
17 think in both cases I agree there should be a
18 public comment period, an appropriate checks and
19 balances. I think the Commission having the
20 ability to initiate a top-down MAT determination,
21 where appropriate, is going to be important for
22 international harmonization, which I alluded to

1 earlier in terms of ensuring we have a consistent
2 scope globally of what products are in scope for a
3 trading obligation.

4 I also think that an adverse consequence
5 of the current process is that the inability to
6 control the MAT process creates this link between
7 the clearing obligation, the trading obligation
8 that some people are quite frightened of. And so
9 that creates I think a negative force on the
10 further expansion of central clearing which I
11 think is something everyone around this table
12 agrees has gone well and may even warrant further
13 expansion. We saw it manifest itself in the
14 discussion last fall around FX NDF clearing and
15 whether or not FX NDFs are appropriate for
16 clearing or not aside, I think there's a number of
17 additional currencies and interest rate swap
18 complex that we clear today and are, you know,
19 completely appropriate for the clearing obligation
20 to expand, you know, to cover, but I don't think
21 people are necessarily are ready to trade those on
22 SEFs, and so I think there's a reluctance to

1 further expand the clearing mandate because there
2 is no way to ensure that a SEF mandate couldn't
3 get triggered 30 days later because of, you know,
4 some of the factors I alluded to already. So I
5 think sustainably for the long-term, the top-up,
6 bottom-down approach to clearing mandate could
7 have value for the MAT process as well.

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

10 MR. BENISON: So I think as long as we
11 have a MAT process, someone is going to have to
12 make the determination and I think -- someone is
13 going to have to initiate it and then someone is
14 going to make the determination. I think in terms
15 of initiating it, you know, I don't feel very
16 strongly that you have to limit it to SEFs being
17 able to initiate it, you could have, you know,
18 bottom-up or top-down, you could open the process
19 to industry organizations. I think though
20 fundamentally you're going to need to have a SEF
21 there to support it. So that's why I think it
22 really is going to start with SEFs no matter what

1 you sort of have as the entire set of entities
2 that could make a proposal. I do think it's
3 important that whatever proposal is made the CFTC,
4 you know, makes the final determination, it
5 doesn't just rely on self-certification.

6 MR. SMITH: Thank you, Tom. Doug?

7 MR. FRIEDMAN: I may be jumping ahead
8 because of where the questions go, but this is the
9 second MAT Roundtable we've had and it's
10 obviously been a very controversial topic really
11 from the beginning. But I think it's also
12 important to recognize where we are in the
13 process. I mean I think at the time that MAT
14 determinations were made initially the CFTC may
15 not have been in a position to have the data or
16 the information to have done if you will the top-
17 down type of analysis. And while there have
18 obviously been a few bumps in the road, but the
19 process has been reasonably successful, there is a
20 reason why we're here today, because questions
21 still persist. And I think with that in mind, you
22 know, we are supportive of the idea that there is

1 -- it's parallel to the clearing process we think.
2 While it worked with -- you know, reasonably for
3 the SEFs to do it, all the concerns about either
4 misaligned incentives or conflicts of interest, or
5 just potential opportunities for a race to the
6 bottom if there's commercial influence here, we
7 think that at this point in the process it's more
8 appropriate for the CFTC to follow the clearing
9 process for MAT, which is take what the SEFs are
10 listing on their platforms, that's essentially the
11 pool from which the CFTC can choose, then they can
12 put out for comment and they can get, you know,
13 very -- I 'm sure they will get very ample comment
14 back in terms of both the objective criteria, what
15 the market is ready for and what they're not, and
16 they go from there. And so I think we are at a
17 different point in the lifecycle and I think the
18 CFTC has the ability to step in. And I think from
19 a resource perspective -- because I know there are
20 concerns from the CFTC's perspective about, you
21 know, further resource issues -- but it's not as
22 if this is going to be happening all the time. I

1 mean think about it, you did a clearing
2 determination, it's not as if, you know, this is
3 something that you're going to have to do all the
4 time. And we think that it's not going to be
5 perhaps the strain on resources that has been
6 articulated. And so we're supportive at this
7 point of moving it on to the CFTC making that
8 determination with the appropriate public comment.

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

17 MS. PATEL: The process for a clearing
18 determination and the execution determination are
19 separate and they need to be separate. There are
20 a number of things that have to happen. To clear
21 a trade is in hindsight a relatively light lift.
22 Just submit a trade that you've executed for

1 clearing. But to get the pipes and infrastructure
2 built for the actual execution is significant and
3 it requires a number of parties and it requires,
4 from the beginning of the chain all the way back,
5 code being released down so that everyone can test
6 it and make sure that we've got straight through
7 processing or the illusion thereof. Just because
8 a swap can be cleared does not mean that it can be
9 electronically executed under the mandate. You
10 know, certainly the idea of sufficient liquidity
11 for the swap is an important one and I think
12 particularly as we look at the assets that have
13 been impaired due to the package linking, that's
14 something that has to be considered in looking at
15 the liquidity of the actual packages before they
16 are forced into that environment. And again I
17 think that, you know, we've seen the packages
18 impacting or being impacted by the execution
19 determination. The first series of packages that
20 went were very clean. They were spot swap versus
21 spot swap, it was pretty slick. We started to see
22 it fall apart a little bit with the MBS agency

1 swap. I do believe very strongly that in November
2 we are going to see a massive impairment of a risk
3 tool happening. And I think that as we look into
4 next year, as we look at swap versus swaption,
5 that is another very important tool that we use
6 that should not be automatically included in the
7 execution determination simply because the
8 associated swap is made available to trade.

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

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

13 MR. JOHNSON: We feel in agreeing with
14 some of what Angela said, with the separation, but
15 we feel that most importantly is to give the
16 market participants their time to adjust their
17 business processes, so you have to look on for
18 that. But our view is that once the clearing
19 mandate is made the swap should be subject to the
20 trade execution requirement based on the
21 compliance rate, the clearing requirement
22 compliance schedule. So 60 days after the

1 applicable deadline -- there's also pushing for
2 the fact that once the Commission -- pushing for
3 the Commission to make an order on these
4 determinations, and then 30 days after the
5 Commission makes an order on that determination.

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

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

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

1 for the smallest participants?

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

6 MR. SMITH: Thank you, Vincent. Ed?

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

19 In terms of the package point that was
20 raised, we completely agree. I think that many of
21 the MAT submission back when rates and credit
22 indices were made MAT they had requested packages

1 to go through a separate MAT determination and we
2 would wholeheartedly support that the packages
3 just trade on completely different criteria,
4 different dynamics, and they should be assessed on
5 their own rather than just looking at an element
6 within the package.

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

18 MR. SMITH: Thank you, Ed. Arthur and
19 Tom, I know you have your placards up, but due to
20 time considerations, we're going to move ahead
21 because we want to give each of you an opportunity
22 to respond to I think the last topic that we're

1 going to cover, which is if hypothetically the
2 Commission were to make changes to the MAT
3 process, what is the most essential change the
4 Commission should make and why. And I'm just
5 going to start with Tom and circle around. We do
6 have about 15 minutes, so if you could keep your
7 responses fairly brief it would be appreciate.

8 MR. MCGONAGLE: So that's like a minute a
9 person Roger. (Laughter)

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

15 MR. BERGER: I think we have to take a
16 hard look at where we are now right now and why.
17 And I think right now we're at a point where
18 market discipline has resulted in there not being
19 any further MAT submissions since the initial
20 round of 18 months ago or something like that.
21 And I think you should look to the reasons of why
22 that has happened. I think part of it is there is

1 continuing unease about how any expansion of the
2 MAT scope is going to affect certain package
3 transactions. That's not an argument to say that
4 no package transaction should be MAT. I think
5 spreadover treasuries as well as a lot of curves
6 and flies are completely able to trade on SEF, but
7 there are others like invoice spreads and swap
8 versus swaptions coming down the pipeline where
9 there is a huge amount of uncertainty about
10 whether SEFs will be able to support them.

11 Another reason there is still I think
12 market discipline restraining any expansion of the
13 MAT scope is that, you know, for all the talk
14 about how we should have more methods of execution
15 available, I mean of the ones that are currently
16 available the buy-side is still entirely
17 restricted to one, which is RFQ-to-three. So
18 until we think about how we can actually embrace
19 impartial access and make more of the SEFs that
20 are out there more accessible to a wider range of
21 market participants, I think there is a kind of a
22 question, well why are you going to MAT more stuff

1 if it's still -- if I'm basically confined to
2 trading on one of two venues.

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

16 And so these are the factors that I
17 think are restraining it, notwithstanding the fact
18 that the implementation of SEF trading so far I
19 think has been a success, it has brought a lot of
20 improvements to how we do interact in the universe
21 of products that are currently subject to the MAT
22 scope and to the current MAT determination. I

1 think those are the factors that we need to solve
2 because those are the factors that I think are
3 leading the market discipline that's restraining
4 any further expansion for the time being.

5 MR. SMITH: Thank you, Stephen. Lisa?

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

18 MR. SMITH: Thank you, Lisa. Doug?

19 MR. FRIEDMAN: I think in addition, and
20 just restating, we think that the CFTC can take
21 over the process in terms of paralleling the
22 clearing process. I think it's important, giving

1 what we've learned over the last couple of years,
2 that the CFTC also has to give itself enough tools
3 to address the market feedback they're getting.
4 So whether it's, you know, all the market
5 commentary on readiness or how packages trade or
6 various things, so that if the CFTC has the tools
7 to address those market needs, and whether it's
8 phasing, whether it's no-action relief, or whether
9 it's if they keep the process as it is in terms of
10 SEFs, submitting that they've got the appropriate
11 tools to address what might be somewhat
12 over-MAT'ing of product.

13 MR. SMITH: Thank you, Doug. Sunil?

14 MR. HIRANI: So what's interesting is
15 that we've had this panel and not one person has
16 said hey, I want to do another MAT application.
17 So I think that's a bit telling. So I think the
18 one suggesting -- I guess two suggestions I would
19 make is, one is to allow market participants to
20 also make a MAT application. And I'll repeat an
21 earlier suggestion that I made is to then have a
22 public open process where the criteria can be

1 discussed for its merit and then have, you know,
2 the Commission outright, or the Commission plus
3 market participants, you know, in essence codify
4 the MAT application. And I'll echo what Stephen
5 said as well, there are some fundamental
6 infrastructure and package issues that are still
7 outstanding. I would urge the commission to spend
8 more time on rectifying the infrastructure and
9 package issues before trying to be a catalyst for
10 further MAT applications.

11 MR. SMITH: Thank you, Sunil. Vincent?

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

18 MR. SMITH: Thank you, Vincent. Arthur?

19 MR. LEIZ: So I think I said most of
20 them, but I'll quickly list them. Put some
21 criteria around the six criteria, some
22 objectiveness, potentially add three more, minimum

1 number of SEFs, minimum number of market makers
2 and, you know, their readiness from a technology
3 perspective, remove self-certification,
4 contemplate, you know, a MAT determination
5 advisory committee, have a minimum listing period,
6 and then I also think that packages need to be
7 addressed because I don't think it was
8 contemplated, or at least it wasn't contemplated
9 early on that by the virtue of MAT'ing a specific
10 instrument that anything you may trade with that
11 specific instrument is all the sudden MAT'ed as
12 well. So, you know, you should contemplate
13 looking at a package as an integrated unit and
14 making the determination as to whether that
15 integrated unit meets the criteria to be trading
16 on a SEF. And it's particularly concerning around
17 the November no-action relief pertaining swap
18 versus future. There is not a platform in the
19 world that is currently trading these, yet we have
20 -- in reality only one can do it, but this is
21 expiring in four months, and I'd say that the
22 train has already left the station. These will

1 not be trading come November.

2 MR. SMITH: Thank you, Arthur. Angela?

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

18 And again just the idea of packages, I
19 think that we're still far enough ahead of two
20 very critical relief periods expiring and that
21 there is still enough time to do what I would call
22 the right thing for the marketplace.

1 MR. SMITH: Thank you, Angela. Dexter?

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

5 MR. SMITH: Thank you, Dexter. Bill?

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

17 MR. SMITH: Thank you, Bill. Ron?

18 MR. STEINFELD: Thanks. We believe the
19 CFTC is better placed to initiate the MAT process
20 based on hard quantitative criteria, but
21 preserving the ability for SEFs and DCMs, as well
22 as the general public, the buy-side, the sell

1 side, industry associations, is imperative. SEFs
2 should absolutely play a role in assisting the
3 CFTC with their analysis based on their trade
4 data, based on their tech readiness, based on
5 connectivity. And just to add, we believe that a
6 less prescriptive trading methodology for required
7 transactions would also help out the overall
8 process.

9 MR. SMITH: Thank you, Ron. Wally?

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

19 MR. SMITH: Thank you, Wally. Ed?

20 MR. TSAI: So there are obviously a lot
21 of great practical ideas. I won't repeat those.
22 I do want to just emphasize the policy objective

1 driving the MAT determination process, why we're
2 discussing this.

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

19 And I think that a quote from
20 Commissioner Giancarlo's White Paper is worth
21 noting, "swap products move to platforms generally
22 after they are successful, not before." So that's

1 really a touch point in terms of how the MAT
2 process should run.

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

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

16 * * * * *

17

18

19

20

21

22

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

CERTIFICATE OF NOTARY PUBLIC

DISTRICT OF COLUMBIA

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

(Signature and Seal on File)

Notary Public, in and for the District of Columbia

My Commission Expires: March 14, 2018