SUBMISSION COVER SHEET

Registered Entity Identifier Code (optional) 13-06 **Date:** 10/18/2013

IMPORTANT: **CHECK BOX IF CONFIDENTIAL TREATMENT IS REQUESTED.** ☐

ORGANIZATION	Javelin SEF, LLC

FILING AS A: ☐ **DCM** ☑ **SEF** ☐ **DCO** ☐ **SDR** ☐ **ECM/SPDC**

TYPE OF FILING

- **Rules and Rule Amendments**
  - ☐ Certification under § 40.6 (a) or § 41.24 (a)
  - ☐ "Non-Material Agricultural Rule Change" under § 40.4 (b)(5)
  - ☐ Notification under § 40.6 (d)
  - ☐ Request for Approval under § 40.4 (a) or § 40.5 (a)
  - ☑ Made Available To Trade Determination under § 40.5 or § 40.6
  - ☐ Advance Notice of SIDCO Rule Change under § 40.10 (a)
- **Products**
  - ☐ Certification under § 40.2 (a) or § 41.23 (a)
  - ☐ Submission under § 39.5
  - ☐ Swap Class Certification under § 40.2 (d)
  - ☐ Request for Approval under § 40.3 (a)
  - ☐ Novel Derivative Product Notification under § 40.12 (a)

RULE NUMBERS

DESCRIPTION

In accordance with Commodity Futures Trading Commission ("CFTC") Regulation §37.10 this is a submission by Javelin SEF, LLC, for CFTC review and approval of a Made Available to Trade Determination.

October 18, 2013

BY ELCTRONIC SUBMISSION

Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Re: Javelin Determination of Made Available to Trade of certain Interest Rate Swaps made Pursuant to Parts 37 of the Rules of the Commodity Futures Trading Commission (Submission No. 13-06)

To Whom It May Concern:

Javelin SEF, LLC ("Javelin") is pleased to make the following Made Available to Trade submission ("MAT Submission") of Interest Rate Swaps ("IR Swaps") to the Commodity Futures Trading Commission ("Commission") pursuant to Section 5c(c) of the Commodity Exchange Act ("CEA") and Section 40.6(a) of the Commission's Regulations.

Javelin supports the goals of the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Act") and recognizes that the mandatory execution of swaps on Swap Execution Facilities ("SEFs") is critical to promoting pre-trade transparency, increasing market liquidity and competition, while also reducing systemic risk in the swaps market. As the Commission has already noted, increased liquidity in swaps, resulting from SEF trading, will greatly assist DCOs in internal risk management procedures "particularly in mitigating the liquidity risk associated with the unwinding of a portfolio of a defaulting clearing member."[1]

Javelin notes that the CFTC recognizes that SEFs have "sufficient expertise and experience with respect to swaps trading to make an initial determination and to submit that determination to the Commission under the part 40 procedures."[2]

Javelin

Javelin SEF, LLC is a subsidiary of Javelin Capital Markets, LLC which was founded in 2009. It is a derivatives trade venue that focuses on the execution of Interest Rate Swaps and Credit Default Swaps through its subsidiaries. The Commission granted Javelin SEF temporary registration as Swap Execution

[1] 78 FR 33609, Footnote 55.
[2] 78 FR 33610.

Facility on September 19, 2013. Javelin works with its liquidity providers and agency partners to offer its customers order book and Request for Quote ("RFQ") trade execution capability. Javelin is committed to customer choice. Javelin participants may execute on a disclosed or anonymous basis.

MAT Submission Summary

In this MAT Submission Javelin determines that at certain IR Swaps, defined below, have 1) been listed by Javelin, 2) have been made available to clear at least one clearing house, and 3) have sufficient liquidity and (4) meet the necessary criteria considered in Part 37 and 38 rules of the Commission. Javelin certifies that these IR Swaps are therefore *made available to trade* pursuant to 17 CFR 37, and for the purposes of Section 2(h), of the CEA.

Based upon this determination, Javelin makes the following MAT Determination:

"Based upon its determination made pursuant to 17 CFR 37, Javelin SEF certifies that certain listed IR Swaps are hereby made *available to trade*. Such MAT IR Swaps are listed in: *Javelin CFTC Submission 13-04: CME IRS Products*, and *Javelin CFTC 13-05: LCH IRS Products*."[3]

Compliance with the Core Principles

Javelin SEF believes that its MAT Submission complies with the CEA and the Commission's regulations, and promotes the goals of the Act. Section 5h(c) of the CEA provides that SEF's may make swaps available for trading. One of the key goals of the Act is to increase pre-trade and post-trade price transparency in the swaps market. This is consistent with Section 5h(e) of the CEA which provides that the goal of Section 5h is to promote the trading of swaps on SEFs and to promote pre-trade price transparency in the swaps markets. Javelin SEF believes that its MAT Submission is consistent with the Core Principles as follows.

Javelin SEF's Matt Submission is consistent with Core Principle One because it enables SEFs to comply with the Core Principles. As discussed below, mandatory execution of swaps will promote compliance with the following Core Principles:

- Core Principle 3 "Swaps Not Readily Susceptible to Manipulation";
- Core Principle 4: "Monitoring of Trading and Trade Processing";
- Core Principle 7: "Financial Integrity of Transactions";
- Core Principe 9: "Timely Publication of Trading Information", and
- Core Principle 10 "Recordkeeping and Reporting".

Mandatory trading on SEFs will promote the reporting and analysis of data needed for SEFs to comply with Core Principles 3 and 4. Core Principle 3 prohibits SEFs from trading in swaps that are readily susceptible to manipulation. The information captured as a result of the reporting of trade data in connection with Core Principle 9 and the audit trail requirements of Core Principle 10 provide data necessary to identify which swaps are susceptible to manipulation. As result of the increase in trade data that is reported and analyzed, there will be a more accurate indication of market activity and

[3] See website: http://www.thejavelin.com/rules-and-notices

conditions in the swaps market. This will enable SEFs to make informed decisions about which swaps are susceptible to manipulation.

The increase in trade data that is available for analysis will also enable SEFs to comply with Core Principle 4, as it will enable SEFs to monitor trading to detect and prevent market abuses. Compliance with Core Principles 3 and 4 will improve market integrity and create a level playing field for market participants.

Mandatory trading on SEFs will also enable SEFs to comply with Core Principle 7. Swaps subject to mandatory execution on SEFs are also subject to mandatory clearing. The clearing od swaps through central clearing houses will substantially increases the financial integrity of swaps.

The mandatory trading of swaps on SEFs will enable SEFs to promote transparency in the swaps market through the timely publication of trading information in compliance with Core Principle 9. Mandatory trading of swaps on SEFs will increase both pre-trade and post trade price transparency. In addition, transparency will also increase with respect to trading volume and other trading data on swaps that is prescribed by the Commission, and through data captured by SEFs in their audit trail, as required by Core Principle 10.

MAT Submission Made Pursuant to Rule 17 CFR 40.6: Self Certification of Rules

Commission rule 17 CFR 40.6 permits a registered entity to self-certify its MAT Determination as part of its MAT Submission. Javelin makes this submission pursuant to 17 CFR 40.6 and self-certifies the above MAT Determination. Such a determination shall be effective 10 business days after the Commission has received the MAT Submission, unless the Commission stays such the determination's effective date.

IR Swaps for MAT Submission & Determination ("Submission Swaps")

Any IR Swap with the following characteristics is included in the MAT Submission and Determination:

Contract Overview	An agreement to exchange one stream of cash flows for another where one stream is based on a floating rate, for a given notional amount over a specified term, and the other stream is based upon either another floating interest rate or a fixed interest rate for the same notional and a given term
Currency Units	US Dollar, British Pounds, & Euros.
Floating Rate Index	USD LIBOR, Sterling LIBOR, & EURIBOR[4]
Swap Conventions	*Fixed Leg* • Payment Frequency: Monthly, Quarterly, Semi-Annual, Annual • Day Count Convention: 30/360, 30E/360, ACT/360, ACT/365, ACT/ACT

[4] The reference price for the floating leg of IRS Products is the London Interbank Offered Rate for USD LIBOR, Sterling LIBOR, EURIBOR ("LIBOR"). LIBOR is the lowest perceived rate at which banks can borrow unsecured funds from other banks in the London interbank market for a specified time period in a particular currency. LIBOR is calculated daily by the BBA Libor Ltd. in conjunction with Thomson Reuters.

- Holiday Calendars: London, New York, TARGET[5]
- Business Day Conventions: Following, Modified Following with adjustment to period end dates & unadjusted for period end dates

Floating Leg

- Payment/Resets : Monthly, Quarterly, Semi-Annual
- Day Count Conventions: 30/360, 30E/360, ACT/360, ACT/365, ACT/ACT,
- Holiday Calendars: London, New York, TARGET
- Business Day Conventions: Following, Modified Following with adjustment to period end dates & unadjusted for period end dates

Swap Term or Swap Tenor	The duration of time from the effective date to the maturity date. A contract can have a Swap Term from 1 month to 51 years.
Effective or "Start" Date	The date on which parties begin calculating accrued obligations such as fixed and floating interest rate payments. Also known as the start date of the swap.
Maturity Date	The final date on which the obligations no longer accrue and the final payment occurs.
Periodic Settlement Payment and Resets	Fixed Leg: The payment amount of the Fixed Leg is based on the following: Notional, Fixed Interest Rate, Payment Frequency, Number of days in the interest accrual period, and Day Count Convention. Floating Leg: The payment amount of the Floating Leg is based on the following: Notional, Floating Interest Rate Index, Payment Frequency, Number of days in the interest accrual period, and Day Count Convention. Payments are settled in accordance with the payment frequency of the swap.
Trade Start Types	*Next Day*: A new swap where the Effective Date is T+1 from the trade date. *Spot*: A new swap where the Effective Date is T+2 from the trade date. *Forward*: A new swap with an effective date on any day after the spot start date, before the maturity date, and no longer than 50 years and 11 months.
Trade Types	"Rate Trades"; interest rate swaps "Spreads"; combination of interest rate swaps and US Treasury Bonds purchases or sales. IMM[6]; interest rate swaps where Effective Date, Accrual Dates and Maturity

[5] TARGET shall mean any day on which TARGET (the Trans-European Automated Real-time Gross settlement Express Transfer system) is open.

	Date are IMM Dates.
	"MAC" Swaps; Market Agreed Coupon
Notional	"Fixed Notional." Notional remains constant over term of swap.
Types	"Variable Notional Swaps." Notional changes over term of swap.
Settlement	As determined by the clearing house.

Listing Requirement for Swaps under the MAT Submission & Determination

Commission rule 17 CFR 37.10(2) requires that the SEF that makes a swap available to trade must list or offer that swap for trading on its trading system or platform. Accordingly, Javelin certifies that all Submission Swaps discussed above in the section entitled "IR Swaps for MAT Submission & Determination" are currently listed by Javelin and have been submitted to the Commission pursuant rule 40.2.[7]

Clearing Requirement for Swaps under the MAT Submission & Determination

At least initially, the Commission has stated that it will only review MAT submissions for swaps that it has first determined to be subject to the clearing requirement under Section 39.5 of the commission's regulations. Accordingly, Javelin asserts that all Submission Swaps discussed above in the section entitled "IR Swaps for MAT Submission & Determination" are currently cleared by at least one clearing house.

Commission Factors considered for IR Swaps in MAT Submission & Determination

Commission rule 17 CFR 37.10(b) and Commission rule 17 CFR 38.12(b) require the SEF or DCM to consider certain factors ("Commission Factors") as appropriate in making a swap available to trade for the purposes of 2(h)(8) of the CEA.[8] Javelin notes that the Commission considers no one factor dispositive.

Javelin further notes that the Commission permits the SEF to consider swaps in groups or categories if the required Commission Factor is readily applied to all swaps within the particular group or category. [9] With regard to Submission Swaps, Javelin considers the Commission Factors relative to certain categories, classes and maturity buckets.

[6] IMM shall mean the four quarterly dates of each year which are the third Wednesday of March, June, September, and December in accordance with the International Monetary Market calendar a division of the CME Group.
[7] See website: www.thejavelin.com/products
[8] 78 FR 33630.
[9] 78 FR 33611.

Category	***A***	***B***	***C***
Currency	*USD*	*EUR*	*GBP*
Index	*Libor*	*Euribor*	*Libor*
Maturity Bucket			
Front-end	*0-5.00 Yrs*	*0-5.00 Yrs*	*0-5.00 Yrs*
Curve Middle	*5.01-10 Yrs*	*5.01-10 Yrs*	*5.01-10 Yrs*
Curve Back-end	*10.01-51 Yrs*	*10.01-51 Yrs*	*10.01-51 Yrs*
Class 1	*Fixed Notional*	*Fixed Notional*	*Fixed Notional*
	Spot Start Date	*Spot Start Date*	*Spot Start Date*
Class 2	*Fixed Notional*	*Fixed Notional*	*Fixed Notional*
	Forward Start Date	*Forward Start Date*	*Forward Start Date*
Class 3	*Variable Notional*	*Variable Notional*	*Variable Notional*
	Spot & Forward	*Spot & Forward*	*Spot & Forward*

Figure 1.0

Javelin identifies IR Swap categories based upon two core attributes for Submission Swaps: Currency and Floating Rate lndex. Within each category, Javelin further considers *three* maturity buckets: *Curve: Front-end (0-5.00 Years)*, *Curve Middle (5.01-10 Years)*, and *Curve Back-end (10.01-51 Years)*. Finally, Javelin considers each category into three *classes*: *Class 1* "Fixed Notional, Spot Effective Date," *Class 2* "Fixed Notional, Forward Effective Date," and *Class 3* "Variable Notional, both Spot & Forward Effective Dates" (*See Figure 1.0 above*).

Category A Swaps includes all Submission Swaps that are US dollar denominated and use LIBOR for its Floating index and which have with maturities from 1 day to 51 years and have either spot or forward start dates and have either a fixed or variable notional.

Category B Swaps includes all Submission Swaps that are Euro denominated and use EURIBOR for its Floating index and which have with maturities from 1 day to 51 years and have either spot or forward start dates and have either a fixed or variable notional.

Category C Swaps includes all Submission Swaps that are British Pound denominated and use Sterling LIBOR for its Floating index and which have with maturities from 1 day to 51 years and have either spot or forward start dates and have either a fixed or variable notional.

Javelin asserts that each Commission Factor considered applies to all swaps within the given group Category, notwithstanding certain maturity and class considerations discussed below.

Part 37.10(b)(1) Willing Buyers and Sellers

Commission Factor 37.10(b)(1) asks the SEF to consider whether there are "ready and willing buyers and sellers" with respect to a submission swap or class.[10] First, 'willing buyers and sellers' includes all swap

[10] Ibid.

dealers who, as 'market makers,' are prepared to provide a price for a swap in a given Category at any given time. Currently, the CFTC has 79 registered swap dealers who routinely act as willing buyers and sellers in the IR Swaps marketplace.[11] These dealers may be found providing liquidity on at least 13 temporarily registered SEFs or trade execution platforms. Many dealers also have single dealer platforms through which they provide liquidity to the marketplace. Still other dealer provide liquidity to customers by phone.

Figure 2.0 below shows swap dealers per Submission Swaps Category. For *Category A* swaps, Javelin has identified 20 swap dealers who routinely act as willing buyers and sellers to the US dollar Libor market. For *Category B* Swaps, Javelin has identified 22 swap dealers who routinely provide liquidity to the Euro Euribor IR Swaps market. For *Category C Swaps*, there are at least 7 swap dealers who act as market makers for the British Pound Libor indexed swap marketplace.

Willing Buyers & Sellers: Dealers

Category A		***Category B***		***Category C***
BoA Merrill	*Barclays*	*BoA Merrill*	*Barclays*	*Barclays*
BNP Paribas	*CIBC*	*BBVA*	*BNP Paribas*	*Deutsche*
Citigroup	*Commerzbank*	*Commerzbank*	*Credit Agricole*	*Goldman Sachs*
Credit Agricole	*Credit Suisse*	*Credit Suisse*	*Citigroup*	*HSBC*
Deutsche	*Goldman Sachs*	*Deutsche*	*Danske*	*JP Morgan*
HSBC	*JP Morgan*	*HSBC*	*Goldman Sachs*	*Lloyds*
Morgan Stanley	*Natixis*	*JP Morgan*	*ING*	*RBS*
Nomura	*RBC*	*Morgan Stanley*	*Landesbank BW*	
RBS	*Societe Generale*	*RBS*	*Natixis*	
UBS	*Wells Fargo*	*Societe Generale*	*Santander*	
		Unicredit	*UBS*	

Figure 2.0 *Source: Dealers, CFTC*

Such dealers (listed per swap Category above) are ready and willing buyers and sellers for all swaps within the Category across all three maturity buckets. With regard to *Class 1* and *Class 2* swaps, the same listed dealers routinely provide liquidity for any swap on a *spot* or *forward* basis within the given Category. Because variable notional swaps are nothing more than aggregates of spot and forward settle swaps to differing terms or maturities, most dealers within each Category also act as willing buyers and sellers of *Class 3* swaps.

It is important to note, that traditional swap dealers are not the only liquidity providers willing to make a price to the IR Swaps marketplace. Non-traditional market makers are currently entering the market to act as willing buyers and sellers of swaps in all three Submission Swap Categories. Currently, multiple

[11] See website: www.cftc.gov/lawregulation/DoddFrankAct/registerswapdealer.

electronic or 'algorithmic' trading firms routinely act as market makers in other assets classes such as interest rate futures and options, commodity derivatives, equities and equity derivatives to name but a few. Several of these firms are expected to enter the IR Swaps market to provide liquidity in all three submission swap categories.

Further, with the advent of *all-to-all* trading platforms, customers are now able to provide liquidity to the market place for the first time. That is, on several platforms, customers are now able to submit *limit orders*—where they submit the *highest* bid or *lowest* offer. As such, customers now act as willing price providers each time they enter a limit order for a swap classified in any of the three submission categories.

Upon analysis of the IR Swaps market liquidity composition, Javelin asserts that there is a substantial number of *willing buyers and sellers* of Submission Swaps for all three Categories. This analysis includes traditional bank dealers who routinely make markets, but also considers the positive liquidity impact occurring from the arrival of non-traditional price makers and *customer-to-customer* price providing in all three Categories for the first time.

Part 37.10(b)(2) & (3) Volume and Trade Count

Commission Factor 37.10(b)(2) and (3) asks the SEF to consider the volume, frequency and the transaction size with respect to a submission swap or class.[12] The IR swap market is generally accepted to be one of the largest and most liquid markets in the world. For example, one clearing house, LCH.Clearnet, reports that it currently has over $425 Trillion of notional swaps in clearing.[13] That is, for every one dollar of GDP created by the United States, LCH.Clearnet has over $28 of cleared swaps notional outstanding. Of the total notional outstanding at LCH.Clearnet, US dollar swaps comprise 30.6%, Euro swaps 45.2% and GBP swaps comprise 11.1%.[14]

Figure 3.0 below considers the *volumes traded* per submission Category across maturity on a *year to date* basis. We sourced this volume data from LCH.Clearnet. [15] Because LCH.Clearnet claims to be 50% of the market, we multiplied the volume data by two to return a global volume data result for such submission swaps.[16] Javelin believes this data to be conservative because not all swap trades are cleared.

[12] Ibid.
[13] See website: www.swapclear.com/what/clearing-volumes.html
[14] Ibid.
[15] Ibid.
[16] LCH counts each side of the trade to determine volume. We count only one trade side.

Submission Swap Volume: 2013 Year to Date

Category	*0-5.0 Years*	*5.01-10 Yrs*	*10.01-51 Yrs*	*Total*
Category A	*90,788,077*	*10,738,375*	*6,941,980*	*108,468,432*
Category B	*115,274,064*	*13,634,567*	*8,814,265*	*137,722,896*
Category C	*28,701,070*	*3,394,750*	*2,194,586*	*34,290,406*

Figure 3.0 *Source: LCH*

Source data for Category A Swaps reveals that a total notional of 108.47 Trillion has traded so far year. Such volume is broken down into *Curve: Front-end 90.79 Trillion, Curve Middle 10.74* Trillion and *Curve Back-end 6.94 Trillion.*

Source data for Category B Swaps reveals that a total notional of 137.72 Trillion has traded so far year. Such volume is broken down into *Curve: Front-end* 115.27 *Trillion, Curve Middle 13.63* Trillion and *Curve Back-end 8.81 Trillion.*

Source data for Category C Swaps reveals that a total notional of 34.29 Trillion has traded so far year. Such volume is broken down into *Curve: Front-end* 28.70 *Trillion, Curve Middle* 3.39 Trillion and *Curve Back-end 2.19 Trillion.*

Front-end bucket volumes across all three Categories are noticeably higher than those for the other two longer dated maturity buckets. This is because they include Floating Rate Agreements (FRAs) that, though shorter in maturity, trade in large sizes.

Already a large market by notional outstanding, the *year to date* trade volumes for each submission Category confirm that sizable liquidity exists in this vibrant market when considered both on an aggregate Category basis or by individual maturity bucket within a given Category.

Submission Swap Tradecount: 2013 Year to Date

Category	*0-5.0 Years*	*5.01-10 Yrs*	*10.01-51 Yrs*	*Total*
Category A	*215,734*	*186,378*	*89,304*	*491,416*
Category B	*70,044*	*36,472*	*22,926*	*129,442*
Category C	*41,286*	*20,722*	*14,352*	*76,360*

Figure 3.1 *Source: DTCC, CME*

Figure 3.1 considers the *trade count* per submission Category across maturity on a *year to date* basis. We sourced such data from both DTCC SDR daily trade files and CME SDR website.[17] [18] Upon analysis of the data, it was determined that the trade *volume* data was incomplete and thus we used only trade *count* data from the SDRs for Submission Swaps.[19] Such trade count data, however, we believe to be conservative because not all swap trades are required to be submitted to an SDR.

Trade *count* data from both SDRs, supports the notion that there exists considerable liquidity for the Submission Swaps that comprise Category A, B and C. Category A Swaps have traded 491,416 trade sides year to date or for 205 trading sessions. Likewise, Category B Swaps have traded 129,442 trade sides so far this while Category C Swaps have traded 76,360 trade sides so far this year. The average daily trade count for all three Categories combined is 3,401.

Javelin asserts that the swaps market is one of the largest and most liquid globally when volume, trade count and average trade size is considered. There is ample liquidity for Submission Swaps in Category A, B and C when trade volumes and trade frequency are considered in total or by maturity bucket.

Part 37.10(b)(5) Bids/Offer Spread

Commission Factor 37.10(b)(5) asks the SEF to consider the Bid-Offer spread with respect to the submission swap or class.[20] It is well established that one method through which to judge product liquidity is to measure the *Bid-Offer* spread of the instrument traded. The wider the *Bid-Offer* spread, the more expensive the transaction cost and the less liquid the product is generally considered. The tighter the *Bid-Offer* spread, the cheaper it is to enter and exit the product, hence the lower the transaction cost. Products with tighter *Bid-Offer* spreads are thus more liquid and have less 'friction' for the market participant.

Submission Swaps: Bid /Offer Spread (Liquid Points)

Category	***1yr***	***2yr***	***3yr***	***4yr***	***5yr***	***6yr***	***7yr***	***8yr***	***9yr***	***10yr***	***15yr***	***20yr***	***30yr***
Category A	*0.30*	*0.40*	*0.50*	*0.50*	*0.30*	*0.40*	*0.40*	*0.30*	*0.40*	*0.30*	*0.40*	*0.40*	*0.40*
Category B	*0.60*	*0.40*	*0.30*	*0.30*	*0.30*	*0.40*	*0.30*	*0.40*	*0.40*	*0.40*	*0.60*	*0.70*	*0.80*
Category C	*-*	*1.20*	*1.00*	*1.00*	*1.00*	*1.00*	*1.00*	*1.00*	*0.90*	*1.00*	*1.10*	*1.20*	*1.10*

Figure 4.0 *Source: Bloomberg*

Figure 4.0 above considers the *Bid-Offer* spread differential for all liquid swap points for each submission swap category expressed as *basis points* of yield.[21] For liquid points in the *Front-end* (0.0-5.0 years) maturity bucket, we observe that the average *Bid-Offer* spread for Category A Swaps is 0.40 basis points.

[17] See website: www.cmegroup.com/market-data/repository/data.html?assetClass=Interest+Rate

[18] See website: http://rtdata.dtcc.com/gtr/dashboard.do

[19] For example, block trades submitted to the SDR do not specify the full notional amount and trades with zero notional were excluded from the trade count.

[20] 78 FR 33630.

[21] Javelin may offer additional data Figure 4.0.

For Category B Swaps, we observe an average *Bid-Offer* spread of 0.38 basis points and for Category C Swaps, we observe an average *Bid-Offer* spread of 1.05 basis points.

Likewise, for liquid points in the *Curve-Middle* (5.01-10 years) maturity bucket, we observe that the average *Bid-Offer* spread for Category A Swaps is 0.36 basis points. For Category B Swaps, we observe an average *Bid-Offer* spread of 0.38 basis points and for Category C Swaps, we observe an average *Bid-Offer* spread of 0.98 basis points.

Lastly, for liquid points in the *Curve Back-end* maturity bucket *(10.01-51 Years)*, we observe that the average *Bid-Offer* spread for Category A Swaps is 0.40 basis points. For Category B Swaps, we observe an average *Bid-Offer* spread of 0.70 basis points and for Category C Swaps, we observe an average *Bid-Offer* spread of 1.13 basis points.

Upon consideration, it is clear that such *Bid-Offer* spreads are already quite tight and characteristic of considerable liquidity for Category A, B and C Submission Swaps. Further, based on empirical evidence from other asset classes, it is well established that such *Bid-Offer* spreads should tighten as new trade execution venues, and alternative liquidity providers enter the marketplace to make markets for such Submission Swaps.

Part 37.10(b)(6) Usual Number of Bids & Offers

Commission Factor 37.10(b)(6) asks the SEF to consider the usual number of resting firm or indicative bids and offers" with respect to a submission swap or class.[22] To more accurately measure product liquidity, it is important to consider, not just volume, but the *available liquidity* measured by the total number of available bids and offers and their associated size. [23]

By contrast, traditional volume measurements may consistently undercount product liquidity because they fail to capture all willing buyers and sellers at the clearing price at a given time in the market. That is, market volume for a given interval may show low trade activity (thus "low liquidity"), but there could still be a significant number of bidders and sellers in the market for large amounts (thus high "*available liquidity*").

Number of Bids/Offer

Category	***2yr***	***3yr***	***4yr***	***5yr***	***6yr***	***7yr***	***8yr***	***9yr***	***10yr***	***15yr***	***20yr***	***30yr***
Category A	6	6	6	6	6	6	6	6	6	6	6	6
Category B	5	6	6	6	6	6	5	5	5	6	5	5
Category C	2	2	2	2	2	2	2	2	2	2	2	2

Figure 5.0 *Source: Bloomberg*

Figure 5.0 considers the available *number* of bids and the *number* of offers for given swaps for Categories A, B and C. [24]

[22] 78 FR 33630.

[23] See SDMA Comment Letter submission to CFTC re Block Trade Thresholds (dated 2/2/12) for a more complete discussion of Available Liquidity.

[24] Javelin may offer additional data for Figure 5.0 and Figure 5.1.

Figure 5.0 for *Category A* Swaps reveals the total number of Bids and Offers for the following maturity buckets: *Curve: Front-end 24 bids/24 offers, Curve Middle 30 bids/30 offers* and *Curve Back-end 18 bids/18 offers.*

Figure 5.0 for *Category B* Swaps reveals the total number of Bids and Offers for the following maturity buckets: *Curve: Front-end 23 bids/23 offers, Curve Middle 27 bids/27 offers* and *Curve Back-end 16 bids/16 offers.*

Figure 5.0 for *Category C* Swaps reveals the total number of Bids and Offers for the following maturity buckets: *Curve: Front-end 8 bids/8 offers, Curve Middle 10 bids/10 offers* and *Curve Back-end 6 bids/6 offers.*

SUM of Bids/Offers (MM)

Category	***2yr***	***3yr***	***4yr***	***5yr***	***6yr***	***7yr***	***8yr***	***9yr***	***10yr***	***15yr***	***20yr***	***30yr***
Category A	1,700	1,200	1,000	850	770	650	555	465	425	265	210	165
Category B	800	700	525	525	450	425	375	375	375	237	105	82
Category C	100	85	50	45	45	43	41	39	38	34	31	30

Figure 5.1 *Source: Bloomberg*

Figure 5.1 considers the sum notional of the available Bids *or* Offers observed in Figure 5.0, in local currency.

For Category A Swaps, we observe the following sum notional associated with either the bids or offers across maturity bucket: *Curve: Front-end 4.75 Billion Bid Size/4.75 Billion offer size, Curve Middle 2.865 Billion Bid Size/2.865 Billion offer size* and *Curve Back-end 640 Million Bid Size/640 Million offer size.*

For Category B Swaps, we observe the following sum notional associated with either the bids or offers across maturity bucket: *Curve: Front-end 2.55 Billion Bid Size/2.55 Billion offer size, Curve Middle 2.00 Billion Bid Size/2.00 Billion offer size* and *Curve Back-end 424 Million Bid Size/424 Million offer size.*

For Category C Swaps, we observe the following sum notional associated with either the bids or offers across maturity bucket: *Curve: Front-end 280 Million Bid Size/280 Million offer size, Curve Middle 206 Million Bid Size/206 million offer size* and *Curve Back-end 95 Million Bid Size/95 Million offer size.*

It should be noted that both tables highlight a current shortcoming of such a method—lack of available data. For both tables, Javelin only observed data from Bloomberg, one out of several trade venues. Other trade venues have not yet gone fully operational or may not be directly accessible. We expect this to change though in the coming weeks and months and thus this shortcoming should abate.

That 'available' data is a smaller subset of 'usual' data is highlighted by the fact that not all dealers for a given category were observed on the venue. In fact, for Categories A, B and C Swaps, only 28-30% of dealers were observed.

Further, tables 5.0 and 5.01 only capture bids and offers in the order book. They do not capture the usual number of bids and offers that are available upon request for all Submission Swaps by the Request For Quote ("RFQ") execution method. RFQ is certainly the more prevalent or 'usual' trade execution method today for Submission Swaps, but this data is not yet generally available.

Consequently, it is not unreasonable to assume that 'usual' liquidity is significantly greater than the observed 'available' liquidity evidence in tables 5.0 and 5.1.

But notwithstanding the lack of available data, the observed liquidity, measured by total number of bids or offers here, certainly reflects quite a vibrant and liquid market for Submission Swaps across Categories A, B, C — when considered per maturity bucket. For example, for Category A & B Swaps for the first two maturity buckets, there was anywhere between 23 and 30 bids or offers for the *on the run* points.

Such a conclusion is further supported by the *total notional* available and willing to trade associated with such bids and offers in table 5.0. For example, for Category A and B Swaps for the first two maturity buckets, there was anywhere from a sizeable $2.50 Billion to $4.75 Billion available to trade at any one time on either the bid or offered side of the market.

In conclusion, Javelin asserts that when the usual number of bids and offers are considered (either by number or associated notional)—there is significant liquidity for Submission Swaps in Categories A, B and C.

Classification by Maturity Bucket: Acceptable Approach?

Is it proper to consider trade volume, size, bid-offer spread or the number of bids and offers grouped by trade bucket with a given Category?

Javelin asserts that, because of the *Market Breadth* approach and the portfolio approach in which swaps are risk managed, the liquidity characteristics of one swap, or group of swaps, *(e.g.* 2yr, 3yr, 4yr, 5yr) readily carries to all Submission Swaps within the same maturity bucket.

$$\text{Market Breadth} = \Sigma\, AL_{\text{focus swap, hedge swaps}}$$

Market Breadth is defined as the total sum of available liquidity of the focus swap, in addition to the available liquidity of the swap or basket of swaps used to hedge or risk manage it.[25]

Simply put, a given swap (a "focus swap") may be routinely hedged by another swap of like duration or by a basket of swaps of different maturities with a like duration. Thus, the liquidity characteristics of the hedge swap or basket of hedge swaps readily carries to that of the other ("focus swap").

[25] See SDMA Comment Letter submission to CFTC re Block Trade Thresholds (dated 2/2/12) for a more complete discussion of Market Depth.

For example, a market practitioner may hedge a 3.6 Year USD IR Swap with a duration weighted basket of both 3 Year USD IR Swaps and 4 Year USD IR Swaps. That is, the risk of a 3.6 USD IR swap may be synthetically replicated (and thus hedged) by a basket of more liquid swaps within the same maturity bucket.

If this risk manager is a dealer who is asked to provide a price on the 3.6 IR swap ("focus swap"), the bid-offer quoted is directly related to the liquidity characteristics of her hedge basket; in this instance the 3yr and 4 yr IR swap ("hedge swaps"). The *less* liquid the hedge swaps, the wider the *Bid-Offer* spread will be on the *focus swap* to compensate the price provider for the higher production cost. Conversely, the *more* liquid the hedge swaps, the tighter the Bid-Offer spread should be on the focus swap.

Consequently, Javelin determines the liquidity characteristics of one swap or basket of swaps is transitive and carries to all other swaps that may be accurately replicated by use of such hedge swaps. Since all swaps with a given Javelin maturity bucket may be synthetically replicated or risk managed by baskets of more liquid ones within the same bucket—it is entirely appropriate that Javelin asserts that the liquidity attributes of the *On-the-Run* swaps (2yr, 3yr, 4yr, 5yyr etc.) within a given maturity bucket (considered above) carry to all other swaps within that same bucket.

Javelin Methodology Consistent with DCOs

Such a portfolio approach is consistent with other market practitioners such as DCOs with regard to liquidity considerations and IR swaps classification.

In its *Made Available to Clear* determination, LCH.Clearnet asserted that it was "counterproductive to define every single attribute and combination that could be found in an IR swap."[26] Instead, it recommended broad primary attributes for classification. Such attributes include: currency, floating rate index, swap type (floating versus fixed, or floating versus floating), maturity, notional type (fixed, variable).

Javelin notes that its classification methodology is quite similar to that of LCH.Clearnet.

With regard to liquidity, LCH.Clearnet believed that, while it was one of the most important characteristics in deciding whether to clear a swap or swap class, "traditional listed futures measures of liquidity" are not readily applicable because the vast majority of swaps were not fungible.[27] According to LCH.Clearnet, for IR swaps, "volume in isolation is not a reliable indicator of liquidity."[28] Consequently, LCH.Clearnet opted to consider liquidity as a function of outstanding notional, by maturity bucket and currency, among other factors.

Classification by Classes 1, 2 & 3: Acceptable Approach?

Is Javelin's use of subclass within its three main Categories an acceptable approach?

[26] Page 6. LCH.Clearnet Submission to CFTC (2/24/2012).
[27] Page 2. LCH.Clearnet Submission to CFTC (2/24/2012).
[28] Ibid.

Within Category A, B or C Swaps, Javelin classifies swaps into three Classes: *Class 1, Class 2 and Class 3.* Javelin asserts that such a classification is entirely appropriate and consistent when considering the Commission Factors as appropriate.

Class 1 and Class 2 Submission Swaps

Class 1 and Class 2 IR swaps are those instruments with a fixed notional, but where their start or effective dates are different. Class 1 swaps have *spot* effective dates or start dates. Class 2 swaps have *forward* effective dates.

Because IR swaps with *spot* and *forward* dates are mathematically related, Javelin observes that liquidity considerations of Class 1 swaps directly carry to the liquidity considerations of Class 2 IR swaps within a given Category.

$$r_{t_1,t_2} = \left(\frac{(1+r_2)^{d_2}}{(1+r_1)^{d_1}} \right)^{\frac{1}{d_2-d_1}} - 1$$

Figure 6.0

Figure 6.0 considers the general mathematical relationship between the spot and forward rate where $r_{t1,t2}$ is the forward rate between term t_1 and term t_2; and where d_1 is the time length between time 0 and term t_1; and where d_2 is the time length between time 0 and term t_2; and where r_1 is the spot yield for the time period (0, t_1) and where r_2 is the spot yield for the time period (0, t_2).

Simply put, an IR swap with a *forward* start date may be synthetically created (therefore hedged) by a combination of IR swaps that are have different *spot* maturity dates. For example, a two year swap-1 year *forward* is nothing more than the difference of a *one* year swap, *spot* effective date and a *three* year swap, *spot* effective date.

Consequently, Javelin believes it entirely appropriate and consistent that the Commission Factors considered for one class directly carry to attributes of the other, especially when considering *On-the-Run* swaps (2yr, 3yr, 4yr, 5yyr etc.) that have spot effective dates.

Class 3 Submission Swaps

Class 3 IR swaps are those instruments that have variable notionals. Such IR swaps include amortizing swaps, "roller coasters" and those that may have increasing notionals over the term. Such swaps, however, are nothing more than aggregates of IR swaps of fixed notionals with differing *effective* or *end* dates.

Because such *Class 3* Submission Swaps may be synthetically replicated (or hedged) by combinations of *Class 1* and *Class 2* swaps, Javelin observes that the liquidity considerations of Class 1 and Class 2 swaps directly carry to the liquidity considerations of Class 3 IR swaps within a given Category.

Part 37.10(b)(4) Number and Type of Market Participants

Commission Factor 37.10(b)(4) asks the SEF to consider "the number and types of market participants" with respect to a submission swap or class.[29]

Javelin notes that there are several types of market participants that trade Submission Swaps to either manage interest rate exposure or to optimize returns. Javelin considers the various participant types and the number of participants associated with each participant group.

1) *Swap Dealers*. Swap dealers act as liquidity providers for a wide range of submission swaps where, acting as market makers, they seek to capture the Bid-Offer spread. Such dealers may also take proprietary positions to express views on interest rates, curve anomalies etc. to increase revenue. Dealers also utilize submission swaps as the building blocks, among other derivatives, to offer clients more bespoke interest rate structures to more acutely address their need. There are 79 dealers registered with the CFTC.[30]

2) *Electronic Trading Firms*. Nontraditional price providers are currently entering the swaps market as transparency increases. Such firms engage in manual, automated, and hybrid methods of trading and are active in a variety of asset classes, such as foreign exchange, commodities, fixed income, and equities. Such firms are a critical source of liquidity in the exchange-traded markets. Javelin notes that it's trade association, the FIA PTG, has presently 31 members.[31]

3) Commercial Banks. Banks are perhaps one of the largest and most significant participant groups globally that use submission swaps. Banks routinely hedge considerable interest rate risk associated the assets and liabilities with regard to all their core business-both commercial and retail. Such commercial banks range in balance sheet from a few hundred million to several trillion. In the US alone, there were over 8,300 hundred banks in 2008.[32]

4) *GSEs/Mortgage Servicers/Originators.* Home mortgage related participants regularly deploy submission swaps to manage interest rate risk of underlying mortgage portfolios of commercial and retail borrowers.

5) *Hedge Funds.* Hedge fund managers utilize a wide range of Submission Swaps as part of their investment strategy for the funds they manage. Seeking to optimize total returns, hedge funds seek capital efficient products such as swaps to express views or capture imbalances on interest rate curves, either macro or micro, in order to generate revenue and returns for their investors. Javelin notes the Managed Funds Association (MFA) has 107 firms as members.[33]

[29] 78 FR 33630.
[30] See website: www.cftc.gov/lawregulation/DoddFrankAct/registerswapdealer
[31] See website: http://www.futuresindustry.org/ptg/default.asp
[32] See website: http://www4.fdic.gov/IDASP/index.asp
[33] See website: http://www.managedfunds.org/

6) *Asset Mangers ("Real Money").* Asset Managers are also large users of Submission Swaps. Such participants seek to optimize total returns for the multiple funds that they manage. Such participants use Submission Swaps to both hedge interest rate risk exposure, but also take deploy swaps to earn absolute returns.

7) *Insurance Companies.* Insurance companies routinely hedge considerable interest rate risk associated their assets and liabilities with regard to all core insurance products -both commercial and retail using Submission Swaps. Javelin notes that the American Insurance Association lists 233 Insurance companies in the US.[34]

8) *Pension Funds.* Pension fund participants use Submission Swaps to manage interest rate risk with regard to investment and liability portfolios that tend to be longer in duration. The National Association of State Retirement Administrators (NASRA) lists 82 firms as its members.[35]

9) *REITs*. Real Estate Investment Trusts utilize Submission Swaps to hedge interest rate risk on balance sheet and minimize fund exposure to interest rate movements.

10) *Corporate Treasurers/Municipalities*. Such market participants regularly use Submission Swaps to hedge and manage interest rate risk or optimize funding options in the bond markets.

Upon consideration of the participant landscape for Submission Swaps, Javelin asserts that there are several thousands of market participants globally, that may be broadly categorized into ten groups. Such participants utilize swaps in many different ways such as market making, risk management or asserting outright views on the market to enhance total returns.

Conclusion

Javelin has accurately classified its MAT determination for Submission Swaps into readily definable Categories based on currency and floating rate index. Classifying such Categories further by maturity bucket and subclass, Javelin has considered each of the six Commission Factors to these Categories and classes as appropriate.

Javelin further affirms that such Submission Swaps have been listed for clearing on at least one clearing house and that such Submission Swaps have been listed for trading in accordance with Part 40 Commission rules.

Finally, Javelin certifies that it's MAT Submission and Determination comply with the CEA and the Commission's Regulations. Javelin SEF further certifies that this submission has been concurrently posted on Javelin SEF's website at http://www.theJavelin.com.

[34] See website: http://www.aiadc.org/aiapub/

[35] See website: http://www.nasra.org/members

If you have any questions regarding this submission, please contact me at (212) 779-1600 or james.cawley@thejavelin.com.

Sincerely,

/s/James Cawley
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