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Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

May 18, 2012

Re: Regulation SB SEF – Registration and Regulation of Security-Based Swap Execution Facilities (File Number S7-06-11)

Dear Secretary Murphy:

UBS Securities LLC appreciates the opportunity to submit comments to the Securities and Exchange Commission (the "**Commission**") in response to the Commission's proposed rule on the Registration and Regulation of Security-Based Swap Execution Facilities (the "**Proposed Rule**").[1] This letter is a follow-up to the meeting held with Commission staff on March 27, 2012.

As discussed in our previous comment letters[2] and in our meetings with Commission staff, pending changes to the security-based swaps market will present unique challenges for customers seeking to efficiently locate liquidity and achieve best execution. Several factors, including the anticipated number of security-based swap execution facilities ("**SB SEFs**"), the speed at which security-based swaps are "made available to trade" and any staggered phase-in of the mandatory clearing and execution requirements, may result in significant market fragmentation, with liquidity being distributed across both SB SEFs and the OTC market. As a result, UBS and many of our customers believe that it is important to enable access to services that aggregate and display, side-by-side, available liquidity for both security-based swaps that are mandatorily traded on SB SEFs and those that are permitted to trade OTC (such swaps, "**OTC SBS**").

Electronic trading platforms can serve an important role in connection with OTC SBS

In the Proposed Rule, the Commission asked whether single-dealer platforms will "become obsolete as trading of certain SB swaps moves to SB SEFs? Or, are such platforms likely to continue to exist to support the OTC market?"[3] We believe that single-dealer platforms will be an important source of transparency and liquidity for OTC SBS and, as a result, intend to offer customers the ability to view and transact against liquidity in OTC SBS (the "**UBS Electronic OTC Platform**") alongside the liquidity aggregation services we intend to offer for security-based swaps subject to the mandatory execution requirement.[4]

The Commission noted in its proposed SB SEF rules that traditional single-dealer platforms will not satisfy the SB SEF definition[5] and that the SB SEF registration requirement in Section 3D(a)(1) of the Securities Exchange Act of 1934 only applies to platforms that meet the SB SEF definition[6]. We welcome this regulatory clarification and believe that the Commission's position is consistent with Section 5h(d)(2) of the Commodity Exchange Act (the "**CEA**"), which states that "[f]or all swaps that are not required to be executed [through a

[1] Registration and Regulation of Security-Based Swap Execution Facilities, 76 Fed. Reg. 10948 (proposed Feb. 28, 2011) (to be codified at 17 C.F.R. pts. 240, 242, and 249).
[2] See our comment letter on trade execution dated December 15, 2010 and our comment letter regarding the SB SEF rule and customer agency dated November 2, 2011.
[3] Proposed Rule at 10956.
[4] Please see our comment letter dated November 2, 2011 for further discussion of these liquidity aggregation services.
[5] Proposed Rule at 10954.
[6] Proposed Rule at 10949 (n. 10).

swap execution facility], such trades may be executed through any other available means of interstate commerce."[7] We interpret this guidance from the Commission to mean that OTC SBS can continue to be executed on a single-dealer platform, such as the UBS Electronic OTC Platform, without triggering the requirement to register as a SB SEF or an exchange.

In view of the above, it is important the concept of a single-dealer platform reflects the unique and evolving nature of the security-based swaps market and the ability of customers to act as both liquidity makers and takers in these products. For instance, we believe customers view the ability to submit bids and offers as a critical feature of the UBS Electronic OTC Platform and as an important positive development in terms of overall market structure. We also believe that this feature should not necessarily trigger a registration requirement for the UBS Electronic OTC Platform. For example, bids and offers could be displayed in an anonymous manner and be limited to those for which UBS will transact as principal, meaning that UBS will be exposed to the actual credit risk of each counterparty entering into a transaction via the UBS Electronic OTC Platform and will independently risk manage each of these trades. The UBS Electronic OTC Platform allows for the automation of the traditional price discovery functions currently provided to customers by institutions dealing in security-based swaps and provides a significantly more efficient and transparent means of execution for customers, while at the same time preserving the core characteristics of a traditional single-dealer platform.

In addition, we note that the intended side-by-side display of liquidity in OTC SBS and in security-based swaps subject to the mandatory execution requirement[8] may result in the UBS entity providing the liquidity on the UBS Electronic OTC Platform being an affiliate of the UBS entity hosting the entire customer portal.[9] Assuming both the UBS entity hosting the customer portal and the UBS entity providing the liquidity are registered with the Commission (perhaps as a broker-dealer and a security-based swap dealer, respectively) and only one UBS entity is providing liquidity on the UBS Electronic OTC Platform, we do not think that this division across affiliates should be relevant in the context of analyzing whether there is a registration requirement for the UBS Electronic OTC Platform.

The trading of OTC SBS via the UBS Electronic OTC Platform will assist in transitioning the trading in these products to SB SEFs and expanding the universe of products suitable for mandatory trading. We believe the trading of OTC SBS via the UBS Electronic OTC Platform is consistent with the statutory mandates to promote trading on SB SEFs and to update the SB SEF rules "as necessary to account for technological and other innovation."[10] As a result, we urge the Commission to consider the clarifications requested above in the context of the final SB SEF rules.

<u>Transitional Relief</u>

Finally, we view it as critical that the Commission provide sufficient time for market participants to adapt their trading services as necessary in order to come into compliance following implementation of the final SB SEF rules and any "made available to trade" determination for a specific product. In addition, given that market participants are relying on the current exemptive relief to continue trading security-based swaps pending completion of the SB SEF rules, we do not believe the Commission should withdraw this exemptive relief until, at a minimum, both the joint product definitions rule and the Commission's SB SEF rules are effective.

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[7] We note that we read Section 5h(d) as being applicable to both the Commission and the Commodity Futures Trading Commission ("**CFTC**") given the references to both agencies therein.

[8] Please see our comment letter dated November 2, 2011 for further discussion of these liquidity aggregation services for security-based swaps subject to the mandatory execution requirement.

[9] Relevant considerations include the UBS entities registered with the Commission as security-based swap dealers and the characterization of the agency activities being performed by UBS in connection with the liquidity aggregation service as "broker" activities.

[10] See Section 5h(d)(3) of the CEA.

UBS is grateful for the open manner in which the Commission has addressed issues arising in connection with the implementation of the SB SEF rules. We welcome the opportunity to provide additional information regarding our views on this topic, as well as any other issues related to the Dodd-France Act.

Respectfully submitted,

Paul Hamill
Managing Director

David Kelly
Managing Director