

## MEMORANDUM

TO: File No. S7-06-11, S7-34-10

FROM: Michael E. Coe  
Office of Commissioner Luis A. Aguilar

DATE: June 25, 2012

SUBJECT: Meeting with Representatives of UBS

On June 19, 2012, Michael E. Coe, Counsel to Commissioner Aguilar, met with the following representatives of UBS:

Paul Hamill, Managing Director, Global Credit Trading, UBS Securities LLC;  
Andy Blocker, Managing Director, Federal Affairs Manager, UBS Americas Inc.;  
Jonah B. Platt, Director, Legal & Compliance, UBS Investment Bank; and  
David G. Lucking, Partner, Allen & Overy LLP.

The discussion included, among other things, the topics addressed in the comment letters filed by UBS on May 18, 2012 and November 2, 2011 concerning the Commission's proposed rules regarding Registration and Regulation of Security-Based Swap Execution Facilities and the topics addressed in the comment letter filed by UBS on February 7, 2011 concerning the Commission's proposed rules regarding Regulation SBSR – Reporting and Dissemination of Security-Based Swap Information. At the meeting, the UBS representatives also provided a copy of the attached document: "UBS Liquidity Aggregation Service: *SEC Update*."



# UBS Liquidity Aggregation Service

## *SEC Update*

# Meeting Agenda

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- Overview of the UBS Liquidity Aggregation Service
- Introduction to the UBS Price Improvement Network (**UBS PIN**)
- Recap of Prior Meetings and Comment Letters
- Benefits of Liquidity Aggregation

# Impact of the Dodd-Frank Regulations

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- A multitude of vendors will create SEF platforms and compete aggressively to attract liquidity
- Clients will push for electronic trading and pre-trade pricing for standardized trades
- Clients will recognize complexity and cost of connecting to multiple venues and will seek aggregation to ensure best execution, optimize trading and achieve greater efficiency
- Electronic trading and real-time clearing will attract new market participants (no ISDAs)
- OTC opportunities will not go away, SEF rules apply only to some products / clients / jurisdictions
- Dealers will be challenged to develop an agency model for customers

# UBS Liquidity Aggregation Service: Overview

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- The UBS Liquidity Aggregation Service will permit customers to access the best available liquidity and pricing in the market
- The UBS Liquidity Aggregation Service contemplates UBS offering a variety of services:
  - Aggregation
  - Order Routing
  - Price Improvement Services
  - OTC Services
- UBS has had several meetings with SEC staff, which has raised no major issues with liquidity aggregation and has suggested that the UBS Liquidity Aggregation Service would fit within the SEC's existing regulatory framework for brokers

# Introduction to UBS Price Improvement Network

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- To transition clients to a new trading model in the post-Dodd-Frank execution environment, UBS Securities LLC launched UBS PIN in mid-December 2011
  - UBS Securities LLC is a registered Broker-Dealer and Futures Commission Merchant
- Customer demand and feedback has been overwhelmingly positive:
  - More than 60 customers have signed up to UBS PIN
  - Covered products are single-name CDS and index-linked CDS
  - Currently, volume is primarily in single-name CDS
- UBS PIN provides customers with access to fully live prices on 60-70% of single-name CDS via the service
- It is a critical goal of UBS to ensure customers can maintain access to liquidity via UBS PIN on a transitional basis and via the UBS Liquidity Aggregation Service once Dodd-Frank has been fully implemented

# UBS Liquidity Aggregation Service: Types of Services

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- **Aggregation**
  - Customers may access liquidity across exchanges and SB SEFs (**Trading Platforms**) without having to individually connect to each Trading Platform
- **Order Routing**
  - Order routing will allow customers to access liquidity displayed on Trading Platforms by submitting orders or requests for quotes (**RFQs**)
  - Customers can access Trading Platforms on a disclosed or undisclosed basis
- **Price Improvement Services**
  - The UBS Liquidity Aggregation Service should be permitted, at customer's request, to exercise price/time discretion to use one or more of the following methods to fill a customer order (subject to best execution and satisfaction of post-trade transparency requirements):
    - Liquidity on Trading Platforms (order may be split between multiple Trading Platforms)
    - UBS liquidity (at same or better price to what is seen in the market)
    - Crossing with other customer orders
  - Submission of RFQs, at customer's request, across multiple SEFs and/or partial fills of quotes received
- **OTC Products**
  - Additional services for products that are not subject to the mandatory execution requirement, including trade execution

## UBS Liquidity Aggregation Service: Prior Comment Letters

- UBS has submitted several comments letters regarding liquidity aggregation
  - Market Fragmentation - UBS submitted a comment letter on December 15, 2010, describing the risks of market fragmentation and requesting that the mandatory execution requirement apply to a particular type of SB swap only after a reasonable time has elapsed following the application of the clearing requirement to such SB swap
  - Liquidity Aggregation and Customer Demand - UBS submitted a comment letter on November 2, 2011, discussing the benefits of liquidity aggregation for customers and several suggested regulatory clarifications to ensure liquidity aggregators will be permitted to source liquidity across Trading Platforms
  - UBS submitted two comment letters on May 18, 2012:
    - Impartial Access - reflecting discussions with SEC staff regarding impartial access for brokers and requesting that the SEC consider whether additional guidance regarding broker access should be provided in the final SB SEF rules
    - OTC Products – requesting clarification around the ability to trade SB swaps that are not subject to the mandatory execution requirement on a single-dealer electronic platform

# Benefits to Customers of Liquidity Aggregation

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- Customers will be able to access the best available liquidity and pricing in the market through a single screen via the UBS Liquidity Aggregation Service
- Customers will not have to connect to each Trading Platform individually
- Broader access to all modalities of execution and lower latency trading due to more efficient credit checks
- Cost savings and efficiencies achieved for customers through:
  - Economies of scale provided by UBS
  - Eliminating unnecessary expenditure for customers on connectivity
- Independent commentary from the Tabb Group
  - SB SEF access can cost anywhere from "a few thousand dollars a month per line to a few hundred thousand per line" in connectivity fees
  - "SEF aggregation helps the buy-side ensure that they are getting the best prices; it also helps them tap into potentially dozens of execution venues"
  - "estimate that 40 or more SEFs will be registered to trade swaps in the U.S....automatically monitoring liquidity across this many venues will be challenging"

[Swaps Liquidity Aggregation, Kevin McPartland, Futures Industry, March 2012]