

MEMORANDUM

TO: File No. S7-06-11

FROM: Adam Moore

RE: Implementation of Dodd-Frank Wall Street Reform and Consumer Protection Act
S7-06-11 – Registration and Regulation of Security-Based Swap Execution
Facilities

DATE: July 2, 2012

On June 19, 2012, representatives from the Division of Trading and Markets (Heather Seidel, Nancy Burke-Sanow, David Liu, Linda Sundberg, Leah Mesfin, Michael Bradley, and Adam Moore) and from the Division of Risk, Strategy and Financial Innovation (Amy Edwards, Sandra Mortal and Hans Heidle), met with representatives from UBS (Paul Hamill, Jonah Platt and Andy Blocker), and its legal counsel (David Lucking of Allen & Overy LLP).

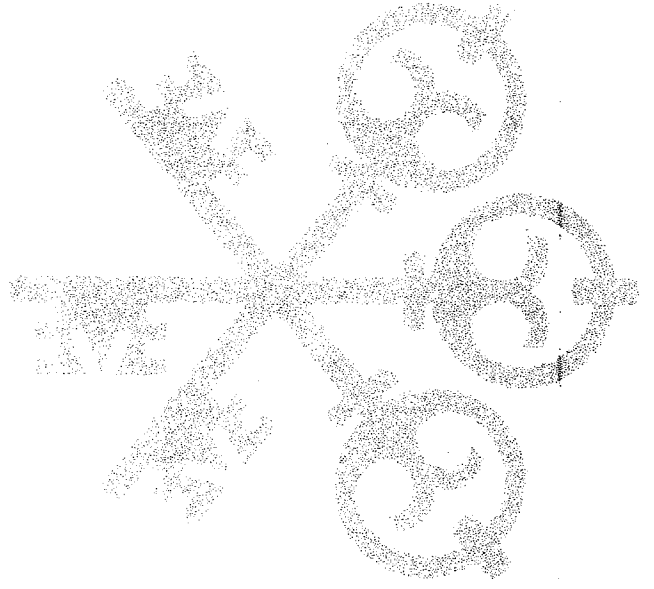
The topics discussed included methods of transacting in security-based swaps.

[No agenda available for this meeting.]



UBS Liquidity Aggregation Service

SEC Staff Update



UBS Liquidity Aggregation Service – Update

Meeting agenda

- Recap of Prior Meetings
- Discussion of Recent UBS Comment Letters
- Price Improvement Services

UBS Liquidity Aggregation Service: Recap of Prior Meetings

- The goal of the UBS Liquidity Aggregation Service is to ensure that customers have access to the best available liquidity and pricing in the market
- Meeting held with the SEC on March 27, 2012
 - UBS and SEC staff discussed the benefits of liquidity aggregation for customers and how the UBS Liquidity Aggregation Service would be regulated under the existing broker framework
 - Discussed the key proposed features of the UBS Liquidity Aggregation Service:
 - Aggregation - Customer can view and access liquidity across SB SEFs and exchanges (**Trading Platforms**) without being a direct member
 - Order Routing - Customer can submit orders or requests for quotes (**RFQs**) that are routed to the relevant Trading Platform, either on a disclosed or undisclosed basis
 - Price Improvement Services - services for helping a customer locate available liquidity and achieve best execution
 - OTC Products - Customer transacts directly with UBS (in its capacity as swap dealer) for SB swaps not subject to the mandatory execution requirement

UBS Liquidity Aggregation Service: Recent Comment Letters

- As a follow-up to the last meeting, UBS submitted two comment letters on May 18, 2012:
 - Impartial Access - seeking to reflect the discussion with SEC staff around the application of the principle of impartial access to brokers and requesting that the Commission consider whether additional guidance regarding practical implementation issues could be provided in the final SB SEF rules
 - OTC Products – affirming that SB swaps not subject to the mandatory execution requirement can continue to be executed on a single-dealer electronic platform and requesting that the Commission take into account the features of the SB swap market when defining permissible single-dealer electronic platforms
 - Customers should be able to submit bids and offers, which could be displayed anonymously and be limited to those for which UBS will transact as principal
 - Electronic trading of OTC SB swaps can occur alongside the display of aggregated liquidity in those SB swaps subject to the mandatory execution requirement. As a result, the entire customer portal may be hosted by the broker-dealer affiliate of the UBS entity that provides liquidity for OTC products on the platform.
- As an additional follow-up, UBS has further considered the price improvement services that may be offered by the UBS Liquidity Aggregation Service

UBS Liquidity Aggregation Service: Price Improvement Services

- Customers of the UBS Liquidity Aggregation Service should be permitted to authorize UBS, acting as broker for the customer, to achieve best execution through a variety of methods
 - The ability to offer some of these services is subject to the functionality developed by Trading Platforms, such as the acceptance of matched orders for execution

Example: Customer order to sell 15M. 6 SB SEFs trade the product, with live prices on 3 SB SEFs for a size of 2M each. The key challenge is how the broker should achieve best execution for the customer.

Methods of locating liquidity:

- The UBS Liquidity Aggregation Service provides agency broker services to customers and operates independently from the UBS market making desk. The UBS Liquidity Aggregation Service may use one, or a combination, of the following options to source liquidity:
 - Sourcing liquidity from one or more connected Trading Platforms
 - Hit/lift available prices
 - Post bids/offers on behalf of the customer
 - Send RFQs to market participants active in the specific product
 - Use work-up features offered by specific Trading Platforms
 - Locate liquidity among other customers of the UBS Liquidity Aggregation Service or from UBS
 - Display some or all of a customer order on the UBS Liquidity Aggregation Service for a defined period of time
 - Cross a customer order with existing customer orders received via the UBS Liquidity Aggregation Service
 - Use work-up features offered by the UBS Liquidity Aggregation Service
 - Source UBS liquidity from the UBS market-making desk via an RFQ

UBS Liquidity Aggregation Service: Price Improvement Services

- To achieve best execution, the UBS Liquidity Aggregation Service:
 - Should consider existing orders on all Trading Platforms that provide the UBS Liquidity Aggregation Service with access
 - Should be permitted to:
 - distinguish between firm and indicative prices, and
 - consider the implications of order sizes
- In each case, trade execution would still take place on a SB SEF or an exchange
- Price improvement services such as RFQ submission, work-up and discussions with the UBS market-making desk constitute pre-execution negotiations
- Matching of customer orders via the UBS Liquidity Aggregation Service will not create a legally binding trade until such trade is finalized on the SB SEF
- All of the usual Dodd-Frank requirements will be applicable upon execution, including real-time and post-trade reporting
- The UBS Liquidity Aggregation Service will use objective criteria to choose among SB SEFs with respect to order routing, the display of liquidity and the provision of price improvement services