SDMA SWAPS & DERIVATIVES MARKET ASSOCIATION

April 21, 2011

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

RE: Comments from Swaps & Derivatives Market Association
Regarding Proposed Rule 17 CFR Parts 240, 242, and 249
Registration and Regulation of Security-Based Swap Execution Facilities

Dear Secretary Murphy:

The Swaps & Derivatives Market Association ("SDMA") appreciates the opportunity to provide comments to the Securities and Exchange Commission (the "Commission") on its Notice of Proposed Rulemaking regarding Parts 240, 242 and 249 of Title 17 of the Code of Federal Regulation entitled "Registration and Regulation of Security-Based Swap Execution Facilities; Proposed Rules".

The SDMA is a non-profit financial markets trade group formed in January 2010 of United States and internationally based broker-dealers, investment banks, futures commission merchants and asset managers participating in all segments of the exchange-traded and over-the-counter derivative and securities markets.

The SDMA supports the goals of the Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act), and the amendments to the Securities Exchange Act which creates a comprehensive regulatory framework for the trading of security-based swaps.

We strongly disagree with the SEC's proposal that a request for quote ("RFQ") execution methodology with only one dealer respondent is acceptable and consistent with DFA transparency requirements. The SDMA believes that the RFQ requirement for a Security-Based Swap Execution Facility ("SB-SEF") should require that a minimum of three liquidity providers to be given the option to respond.

Requiring a minimum of three price quotes is beneficial to the security-based swaps market because it will: (a) provide greater price transparency, (b) promote fair trading on SB-SEFs; and (c) enhance market integrity.

The SDMA believes that requesting *at least* three liquidity providers to respond to a RFQ will provide greater price transparency. Limiting the RFQ to only one price quote provides buyers and sellers with scarcely adequate information about the current market price and is not reliable. Frankly, one price between two counterparties does not represent the market place. To ensure a market price is free from manipulation, a price must be "tested" by an independent third party. Should the price be too low relative to the perceived market price, such a third party will "buy it" while similarly, should the price be too high relative to the perceived market price, then the third party will "sell it." Such a third party, in essence, acts as an independent arbiter protecting the marketplace from inappropriate trading behavior.

The SDMA also believes having three price quotes will also promote fair trading on SB-SEFs. Requiring three price quotes will create competition among dealers and result in a narrower bid / ask spread. As a result, buyers and sellers will obtain better execution prices and save costs. The cost savings resulting from best execution price will become a powerful incentive for more buyers and sellers to trade on SB-SEFs, which will increase liquidity and further stimulate trading on SB-SEFs.

In contrast, showing only one price to the market via a "single quote" RFQ would destroy market integrity and promote trading abuse. Such an RFQ method would facilitate abusive trading practices such as prearranged trading and painting the screen. Prearranged trading occurs when a dealer executes a trade in a risk free manner by improperly agreeing with their counterparty on the price of the trade before entering the market to expose their trade to the market. As a result, customers typically receive worse order fills than if the order was exposed to the market before it becomes a trade.

Another trading abuse that could occur from allowing the single quote RFQ method is "painting the screen." With such an abuse, a market participant posts fake prices or "paints the screen" at execution venues in an attempt to willfully mislead other market participants as to the true market price for an instrument. The swaps market would certainly be at risk from this type of manipulation if one customer and one dealer could post markets to each other which no other market participant could trade on or access.

Certainly an argument to support single quote RFQ trading in the credit default swap market is sometimes illiquid in certain instruments. That is to say, some credits trade so infrequently that few dealers are willing to quote. A remedy here is simple. The SDMA would support a three dealer RFQ, where the customer request to three is mandatory, but that the dealer response is optional. In such a case, the market still "tests" the price, but that price may still trade should only one dealer respond.

In conclusion, the SDMA believes that requiring a minimum of three dealers to be queried for price quotes will benefit the security-based swaps market because it will: (a) provide price transparency, (b) promote trading on SB-SEFs; and (c) enhance market integrity.

The SDMA supports the goals of Dodd-Frank Act, and the amendments to the Securities Exchange Act which creates a comprehensive regulatory framework that reduces risk, increases price transparency and promotes market integrity.

Sincerely,

James Cawley
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