SDMA SWAPS & DERIVATIVES MARKET ASSOCIATION

June 1, 2011

David A. Stawick, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington DC 20581

Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington DC 20549-1090

Re: Recommendation for an implementation timeline for the rules on clearing, executing, and public reporting in OTC Derivatives markets under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Dear Sir/Madam Secretaries,

The Swaps & Derivatives Market Association ("SDMA") appreciates the opportunity to comment on a suggested timeline for implementation of the proposed rules that apply to the clearing, execution and post trade reporting of OTC derivative transactions.

The SDMA is a financial markets trade group of United States and internationally based broker-dealers, futures commission merchants and investment managers participating in all segments of the exchange-traded and over-the-counter derivatives and securities markets. The SDMA was created as a nonprofit organization in January 2010 and today has over 20+ member institutions representing all facets of derivatives execution and clearing.

The SDMA supports Title VII of the Dodd-Frank Act and commends the diligent, thoughtful and complete work that the teams at both the CFTC and SEC have done in preparing rules necessary for the OTC derivatives market place to comply with the Act.

Introduction

"The ultimate inspiration is the deadline."
Nolan Bushnell

The migration of OTC markets from a bilateral, opaque structure, that fostered a "too inter-connected to fail" paradigm to a transparent, centrally cleared and safer design is an historical task. A change to market architecture requires careful planning and the implementation of the plans must be coordinated so that all stages can be completed without undue delay or negating effects on preceding stages.

The debate over the rules promulgated has reached a stage where the market is now seeking certainty on the timing of implementation above all else. The infrastructure to support central clearing, electronic execution and trade reporting exists today. The infrastructure is being used today with cleared SEF compliant trades between Swap Dealers and Major Swap Participants being reported on Javelin (07/16/2010), TradeWeb (2/10/2011), MarketAxess (03/10/2011) and Bloomberg (4/28/2011) in both IRS and CDS products. According to consultancy Aite Group, “the main participants, banks, interdealer brokers and ‘big end users’ are ready to go” when it comes to electronic trading and clearing.*

In order to ensure the efficient and successful application of the rule set, an implementation schedule should establish 3 distinct phases which mandate progressive deadlines without being unduly burdensome. These phases in order of implementation are:

1) Clearing
2) Execution (pre-trade transparency)
3) Swap Data Repository (post-trade transparency)

*Source: Financial Times Special Report, May 31, 2011 *www.ft.com/derivatives-may2011*

Within each phase the market can be divided in to 3 tiers of participants based on an objective measure such as market volume. In each phase Tier 1 participants, those with the highest volume share, can lead the implementation, allowing less frequent users more time to comply.

Phase 1: Clearing

Clearing is the necessary first step, the foundation, to the architecture change that is required for current OTC markets. Creating open and impartial access to clearing serves the goal of reducing risk, enhancing financial certainty and reducing interconnectivity of market participants. Open access allows for an all to all market to exist. If a clearinghouse requires one party on the trade to be a clearing member it will conflict directly with 39.12 (b) (4) which deems this a restriction of trade and further raises competitive issues under Core Principle N (Antitrust Considerations).

Clearing houses must have effective margining and risk models in effect. The rules for margin on both cleared and non-cleared trades must be established.

Clearing houses and clearing members must be ready to accept trades for non-discriminatory clearing (39.12 (b) (2)) upon execution regardless of the execution venue, as is consistent with rule 39.12 (b)(7) which requires a DCO to have rules that provide that the DCO will accept trades for clearing *immediately upon execution* . Clearing houses and clearing members must work with SEFs and DCMs to develop rules and procedures to facilitate prompt and efficient transaction processing, as outlined in Core Principle 7 for SEFs and Core Principle 11 for DCOs.

Access to clearing will allow for mandated transaction compliance. In order to achieve transaction compliance without being unduly burdensome a tiered implementation can be introduced. Tier 1 participants can be compliant by the end of the 3rd month following the finalized rules on clearing, with a 1 month lag for each of the next 2 tiers. This allows Tier 3 participants a full 150 days to comply with the first phase.

In the event a DCO cannot meet the rule requirements or cannot satisfy the deadline set forth for providing access to clearing the license to operate should be withheld until such time that the DCO can be certified as compliant.

Phase 2: Execution

Section 733 of the Dodd Frank Act covers 2 critical areas; (1) bringing greater pre-trade price transparency to swap transactions; and (2) bringing more swaps trading onto regulated trading systems or platforms. Once clearing is established the move to mandate execution on swap execution facilities will enable the goal of increasing pre-trade transparency. In addition the thorough and well-designed core principles for SEFs and DCMs create a framework for regulating these trading platforms.

As defined under 37.9, a swap execution facility means a trading system or platform in which multiple participants have the ability to execute or trade swaps by accepting bids and offers made by multiple participants in the facility or system, through any means of interstate commerce, including any trading facility, that (A) Facilitates the execution of swaps between persons; and (B) is not a designated contract market.

There are multiple platforms that exist today that will satisfy the definition of a SEF and in fact trades being executed and cleared today are taking place on these platforms. The SDMA supports the temporary Grandfather Relief from Registration afforded under 37.3 as this will allow for a more timely implementation of the Dodd-Frank Act. As defined in 37.9, mandatory execution will apply to trades that are; (1) subject to mandatory clearing; (2) made available for trading on a SEF; and (3) too small to be a block trade under part 45.

Execution naturally follows clearing as the second phase of the implementation process.
Using the same phase-in approach applied for clearing, the mandate for execution among Tier 1 participants will be 60 days past the required clearing date. By allowing execution compliance a longer window, Tier 3 participants will have 210 days to become compliant. Any time along the continuum, market participants can enter a voluntary period for compliance prior to the set deadline.

Phase 3: Swap Data Repository

Section 727 of the Dodd-Frank Act requires public availability of swap transaction data. The price and volume data are to be reported as soon as technologically practicable after execution and it is required that the participants to the transaction remain anonymous. This requirement will provide for post-trade transparency and provide all market participants access to trade information at the same time.

Two well established SDRs exist today; DTCC for CDS and TriOptima for IRS. Consolidation could occur or new entrants might enter the space but the functionality for reporting is available today.

> According to the DTCC; "Virtually all CDS contracts in the global market are registered in Warehouse Trust's centralized repository. Warehouse customers include all the major OTC derivatives dealers and more than 1,800 buy-side firms and other market participants in more than 50 countries. The Warehouse also provides a number of other post trade processing services such as payment calculation, netting and central settlement as well as credit and successor event processing."
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> According to TriOptima; "TriOptima was selected by the ISDA Rates Steering Committee in October 2009 to provide the trade reporting repository for all interest rate derivatives. The Global Interest Rate Trade Reporting Repository (the Rates Repository or IRTRR) was launched in January 2010 with the first monthly reports going to the regulators. Public reports were posted to the TriOptima website beginning in April 2010. Currently reporting has moved to weekly with daily reporting planned for beginning of 2011."
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> "Although originally only open to the G14 as part of the launch phase, the Rates Repository is now open to any participant in the interest rate swap market (bank, company, hedge fund, asset manager, etc.) that wishes to report its interest rate transaction information."

Central clearing paves the way for electronic trading which facilitates trade reporting and data gathering. As SEFs must comply with Core Principle 9 for timely publication of trading information, the sequence of mandating execution before post-trade reporting is logical and fluid. Using the same sequential timeline (Exhibit A), SDRs and reporting requirements will have a full 270 days to become compliant.

Establishing Objective Measures for Phased Implementation

Since 80% of the swap market by end user is comprised of Banks, Broker Dealers and Hedge Funds, with Banks being a dominant share, a division based on industry will create an imbalance by placing highly correlated firms with similar flows in the clearing house before the remainder of the market.

Swaps by End User

Insurance companies	5 pct.
Hedge funds	10 pct.
Mutual funds	2 pct.
Institutional Money Managers	10 pct.
Broker Dealers	20 pct.
Non Financials	3 pct.
Banks.	50 pct.

Source FT October 20, 2010

Segmenting markets by trade volume is a more objective measure and allows for the largest participants to establish procedures and protocols to achieve compliance that less active participants can choose to benefit from. Market volume measures can be obtained from the DTCC for CDS and the swap dealers for IRS (section 729 of DFA). These 3 tiers can be defined as follows;

Tier 1: Swap Dealers and largest 100 Major Swap Participants
Tier 2: Next 1,000 Major Swap Participants or Eligible Contract Participants
Tier 3: All remaining

By migrating the market based on objective measures, such as volume, and completing implementation in a timely manner the risk of a lapse in liquidity is reduced. Any competitive advantage that may exist during the implementation period should be remedied by both having comparative scale in each tier as well as having a timely sequence of mandated compliance for the remaining tiers. At all times a balanced representation of the total market should be considered in mandating compliance.

Allowing for long gaps or unbalanced market representation between mandated compliance deadlines may have the unintended consequence of providing an advantage to a specific user group, SEF, DCM or DCO. For example if implementation were to require only swap dealers to be compliant during the initial phase without an immediate on-boarding of additional participants, Inter-Dealer Brokers (IDBs) would be operating as SEFs more readily than SEFs that have a broader user base. This may also advantage late adaptors if a material cost exists between cleared vs. non-cleared trades.

The largest players will not only be the most prepared for implementation but will also create a gravitational pull toward voluntary clearing as they are the majority of the current volume. Less active participants will be granted longer timelines to become compliant. The tiers can be spaced by 30 days each allowing the last required segment a full 60 days additional time before meeting the requirements in each phase.

Conclusion

The industry as a whole is seeking certainty regarding implementation timelines. The logical sequence of implementation is clearing first, followed by execution and then swap data repositories. Final rules on clearing and access to clearing need to be completed allowing a phased in approach of mandatory clearing based on objective and transparent criteria. Setting a deadline for clearing that is not unduly burdensome addresses the industry's need for clarity while eliminating unwarranted delay.

The markets have reached a stage of Dodd-Frank fatigue. The very real risk exists that the reforms mandated by the Dodd-Frank Act are seen as being in a state of perpetual delay and that momentum toward change will expire. All the hard work that has gone into promulgating the current rules, namely the careful consideration of valuable input from a myriad of market participants, must now be put to use.

The ability and the mechanisms to achieve compliance with the rule set largely exist today. What does not exist today is a willingness to effect the change required. That lack of willingness is the consequence of the undeclared deadline. Once the first deadline has been stated, the progressive and orderly implementation of all reforms will follow.

Respectfully,

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EXHIBIT A

COMPLIANCE PHASES	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12
Clearing	<---Voluntary period		Tier 1	Tier 2	Tier 3							
Execution	<---------------------------Voluntary period				Tier 1	Tier 2	Tier 3					
Swap Data Repository	<---Voluntary period						Tier 1	Tier 2	Tier 3			