Tullett Prebon Holdings Inc
101 Hudson Street
Jersey City
NJ 07302
USA

tel +1 201 557 5000
fax +1 201 557 5995

web www.tullettprebon.com

October 5, 2011

Mr. Robert Cook
Director
Division of Trading and Markets
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: Regulation of Bulk Risk Mitigation Services

Dear Mr. Cook:

Tullett Prebon requests that the Securities and Exchange Commission (the "SEC" or "Commission") recognizes bulk portfolio risk mitigation services ("Bulk Risk Mitigation Services"), as described below, to be distinct from facilities, systems, or platforms that allow or facilitate the active "trading" of security-based swaps (*i.e.,* security-based swap execution facilities ("SBSEFs")). Further, Tullett Prebon encourages the Commission to clarify that Bulk Risk Mitigation Services are valuable services or activities that have an impact on reducing the risk of trades that have already been entered into and do not require the services or providers to register as SBSEFs.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") has brought comprehensive reform to the regulation of over-the-counter ("OTC") derivatives in order to reduce risk in the market. However, not all risks can be mitigated by clearing. Bulk Risk Mitigation Services such as Tullett Prebon's tpMATCH, help market participants identify and mitigate risk.

As discussed below, Tullett Prebon supports the policies promoted and the positions expressed in a letter filed by ICAP plc with the Commission on July 7, 2011 (the "ICAP Letter").[1] Though Tullett Prebon and ICAP offer competing Bulk Risk Mitigation Services, we agree with many of the policy implications raised by the ICAP Letter and subscribe to their proposal related to the regulation of these platforms.

[1] *See* Comment Letter to Ms. Elizabeth M. Murphy, Secretary, Mr. Thomas Eady, and Mr. Jeffrey Mooney, Securities and Exchange Commission, from Mark Beeston, Chief Executive Officer, Portfolio Risk Services, ICAP (July 7, 2011).

About tpMATCH

tpMATCH[2] is an electronic forward rate agreement ("FRA") matching platform that enables traders to reduce their LIBOR fixing risk. The system allows traders to send orders to the matching sessions by e-mailing computer generated spreadsheets to tpMATCH.

Once all orders have been uploaded into the system, tpMATCH performs a matching run. The run is based on a mid-market curve set by the industry-leading short-end swaps desk, incorporating all market expectations such as central bank meeting premiums or discounts.

Post matching run, traders are notified of their trades and residual orders via email. All confirmations are generated automatically and sent in the usual way, including Markit Wire/SwapsWire confirmations.[3]

As discussed below, Dodd-Frank Act does not provide a regulatory mandate regarding the proper regulatory classification for Bulk Risk Mitigation Services. Tullett Prebon fears that such regulatory uncertainty may discourage the continued operation of these important risk reduction services. For this reason, Tullett Prebon recommends that the Commission recognizes Bulk Mitigation Services as separate and distinct from SBSEFs.

Additionally, Tullett Prebon suggests that the Commission includes a non-exclusive safe harbor in the SBSEF regulations for Bulk Risk Mitigation Services to clarify the regulatory classification of these valuable services under the Dodd-Frank Act.

Bulk Risk Mitigation Services Reduce Risk

Bulk Risk Mitigation Services have consistently been recognized as useful mechanisms for reducing risk. For example, in 2008 the President's Working Group on Financial Markets set as a key objective to fortify the OTC derivatives market infrastructure.[4] Likewise, the CFTC recently noted "[c]onfirmation, portfolio reconciliation, and portfolio compression have been recognized as important post-trade processing mechanisms for reducing risk and improving operational efficiency for both current market participants and their regulators."[5]

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[2] tpMATCH is one of many services offered by Tullett Prebon, a leading global inter-dealer broker of over the counter financial products. Tullett Prebon's business covers treasury products, fixed income, interest rate derivatives, equities, and energy products, and offers voice, hybrid, and electronic broking solutions for these products.

[3] For additional information regarding tpMATCH, visit http://www.tullettprebon.com/ebroking/ebroking_tpmatch.aspx.

[4] *See* President's Working Group on Financial Markets, *Policy Objectives for the OTC Derivatives Markets* (Nov. 14, 2008), *available at* http://www.treasury.gov/resource-center/fin-mkts/Documents/policyobjectives.pdf.

[5] *See* Confirmation, Portfolio Reconciliation, and Portfolio Compression Requirements for Swap Dealers and Major Swap Participants, 75 Fed. Reg. 81,519 at 81,520 (Dec. 28, 2010).

Bulk Risk Mitigation Services Are Not Security-based Swap Execution Facilities

The significant differences between Bulk Risk Mitigation Services and SBSEFs[6] underline the Commission's need to distinguish between the two services. Unlike SBSEFs, Bulk Risk Mitigation Services do not permit participants to post bids and offers. Further, Bulk Risk Mitigation Services are not run as a continuous market and operate only at the bulk portfolio level rather than the individual, trade level.

From an operational standpoint, tpMATCH and other Bulk Risk Mitigation Services are not continuously operating platforms. They do not function as alternative trading systems. For tpMATCH, the most frequent sessions (for the most popular currencies) take place at a designated time once a week. For other product types, tpMATCH might only operate once every two weeks. It is important to recognize that there are not continuous pools of liquidity for these services. Further, Bulk Risk Mitigation Services do not allow participants to negotiate prices and do not permit them to initiate additional directional trades – in fact, their activities are separated from any affiliated trade execution platforms.

In utilizing Bulk Risk Mitigation Services, participants agree to enter into trades based on a proprietary curve established by the Bulk Risk Mitigation Services. Finally, the results of the Bulk Risk Mitigation Services are presented as a bulk run, rather than as individual transactions from which the participants can discriminately choose.

The diminished risk for individual market participants under the Bulk Risk Mitigation Services may result in overall reduced systemic risk and enhanced stability in the financial market. Of note, the Dodd-Frank Act recognizes such reduction of systemic risk as a main goal in the OTC security-based swap markets.[7]

The Dodd-Frank Act does not provide any guidance regarding the proper regulatory classification for Bulk Risk Mitigation Services. However, in accordance with the Dodd-Frank Act's goal of reducing systemic risk, Tullett Prebon believes that the Commission should continue encouraging the operation of these valuable services by distinguishing them from SBSEFs. Specifically, Tullett Prebon recommends that the Commission provide an explicit, narrowly drawn, non-exclusive safe harbor for Bulk Risk Mitigation Services in the SBSEF rules.

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[6] Section 3(a)(77) of the Securities Exchange Act of 1934, as amended by the Dodd-Frank Act, defines the a "security-based swap execution facility" as follows:

> The term "security-based swap execution facility" means a trading system or platform in which multiple participants have the ability to execute or trade security-based 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 security-based swaps between persons; and
> (B) is not a national securities exchange.

[7] *See* Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203, 124 Stat. 1376 (2010).

Bulk Risk Mitigation Services Are Safe and Transparent

Bulk Risk Mitigation Services do not lend themselves to market abuse and have not been identified as a potential abusive trading practice.[8] Indeed, most of those who participate in Bulk Risk Mitigation Services are large financial institutions that will be subject to regulatory oversight as registered security-based swap dealers or major security-based swap participants. Thus, subjecting Bulk Risk Mitigation Services to SBSEF registration and trading rules is unnecessary, serves no regulatory objective under the Dodd-Frank Act, and would be detrimental to current successful risk mitigation operations.

Conclusion

Tullett Prebon appreciates your attention to this very important issue. We strongly urge the Commission to ensure that the final regulatory regime supports the valuable operations of Bulk Risk Mitigation Services, which offer efficient and effective risk management solutions to security-based swap market participants.

If you have any questions regarding this letter or otherwise wish to discuss it further with us, please do not hesitate to contact the undersigned. I would be happy to meet with you and your colleagues to further discuss tpMATCH, Bulk Risk Mitigation Services, and the comments set forth herein.

Sincerely yours,

Shawn Bernardo
Managing Director
Tullett Prebon

cc: The Honorable Mary Schapiro
The Honorable Elisse Walter
The Honorable Luis Aguilar
The Honorable Troy Paredes

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[8] *See* Core Principles and Other Requirements for Swap Execution Facilities, 76 Fed. Reg. 1,214, at 1,242 (Jan. 7, 2011) (identifying as abusive some trading practices including, “front running, wash trading, pre-arranged trading [and] money passes.”).