

MEMORANDUM

To: File Nos. S7-08-11 and S7-27-10 and File on Title VII of the Dodd-Frank Wall Street Reform and Customer Protection Act

From: Andrew Bernstein
Division of Trading and Markets

Date: September 26, 2011

Re: Meeting with a Representative of the Swaps & Derivatives Market Association

On September 26, 2011, representatives from the Securities and Exchange Commission (“SEC”) met with James Cawley, Co-Founder of the Swaps & Derivatives Market Association. SEC representatives included Haime Workie, Jeff Mooney, Joe Kamnik, Catherine Moore, Andrew Blake and Andrew Bernstein (all from the Division of Trading and Markets).

During the meeting, Mr. Cawley and the SEC representatives discussed issues related to the above-referenced files. The agenda for the meeting included: 1) real time trade acceptance 2) CDS name determination and oversight.

Javelin Swaps Execution Facility (“SEF”)




SUPPORT LINE
1-877-JAV-XCHG
1-877-528-9244

User

Password

☐ Save username & password




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User

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☐ Save username & password

September 2011

Company Background

What We Do

- Match institutional Buyers and Sellers of cleared OTC Derivatives for a fee.
- Match trades electronically on agency basis –or riskless basis.
- Product Focus-- Interest Rate Swaps, Credit Default Swaps.
- Allow customers to trade *anonymously* and *cheaply* on highly liquid venue.
- Central Limit Order Book & Anonymous RFQ
- Broad Market Participation.

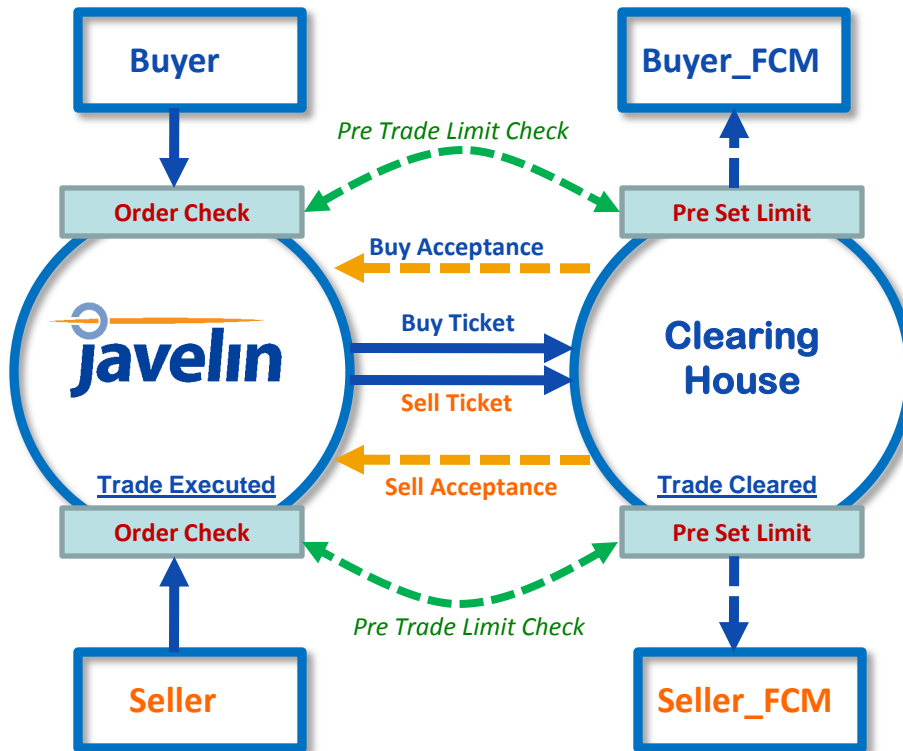
Who Are We?

- Founded in 2009 by derivatives industry trading and technology professionals.
- Formed to exploit structural market opportunity resultant from post 2008 Crisis Regulations.
- Swap Execution Facility or “SEF,” as defined under the Dodd Frank Act (“DFA”).
- Executed first fully cleared, anonymous trade last summer—via IDCG.
- Founders of SDMA; pro Dodd Frank dealer member trade association (20+ members).

Goal: Lessening Systemic Risk

- To remove swap settlement risk that exists from time delay or 'latency' between 1) point of trade execution & 2) point of trade acceptance into clearing.
- Why do we care? Trade integrity is mission critical to success of *Dodd Frank Act* goal of lessening systemic risk inherent OTC derivatives markets.
- Greater transparency, lower transaction costs and greater liquidity come directly from greater competition in market place.
- The Good News. Many new liquidity providers and end users set to enter the market if permitted.
- What should we use? Technology or Documentation? Both?
- How do cleared markets work today for swaps and futures?

Low Latency Solution:



FCM: Last Look Option

Post Trade Process:

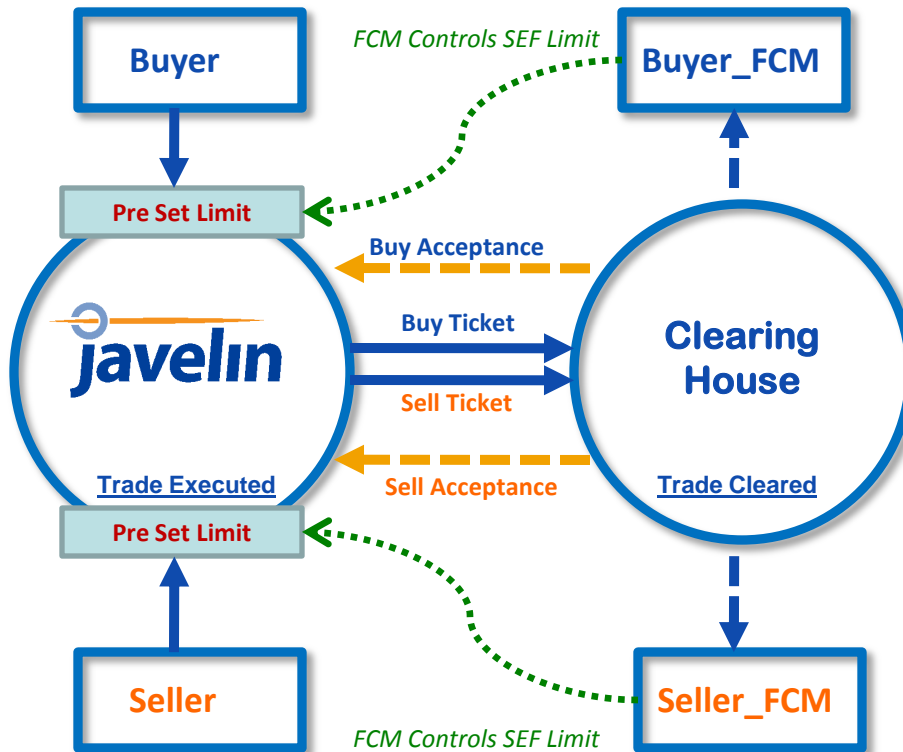
1. Trade Executed On SEF between Buyer & Seller.
2. Trade Sent to CCP (milliseconds).
3. Trade Checked via FCM Pre-Set Customer Limit at CCP (milliseconds).
4. FCM may vary Pre-Set Customer Limit at CCP real time; exists today).
5. Trade Acceptance/Rejection Noticed back to SEF (on SEF) or Buyer/Seller (off SEF) (milliseconds).

Pre Trade Process:

1. To protect from Customer from knowingly exceeding limit:
 - SEF screens order against Pre-Set Customer Limit.
 - CCP either makes Limit available to SEF or SEF queries data held at CCP.
2. To protect from Customer unknowingly exceeding limit:
 - SEF notices Customer real time of current 'spending power' on User Interface or via API.
 - SEF institutes various 'fat finger' checks.

Note: Clearport uses similar model

Perfect Settlement



FCM: No Last Look Option

Post Trade Process:

1. Trade Executed On SEF between Buyer & Seller.
2. Trade Sent to CCP (milliseconds).
3. Trade Acceptance by CCP & FCM automatic.

Pre Trade Process:

1. SEF notices customer real time of current 'spending power' on User Interface or API.
2. SEF institutes various 'fat finger' checks.
3. FCM directly monitors its customer orders on SEF.
4. FCM directly controls its customer limit directly on SEF.
5. FCM can cut customer off/dial limit down real time. (Prevents bad trades from occurring at source.)

Important:

1. FCM guarantees its customer trade.
2. Burden on FCM to police customer on SEF(s).
3. FCM is nexus to credit decision--best able to monitor customer across SEF
4. By protecting itself from bad trade, it protects market.
5. FCM best able to collect against customer (can liquidate account).

Note: Globex uses this model.