



November 24, 2010

VIA ELECTRONIC FILING

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

Re: Ownership Limitations and Governance Requirements for Security-Based Swap Clearing Agencies, Security-Based Swap Execution Facilities, and National Securities Exchanges With Respect to Security-Based Swaps Under Regulation MC; *Proposed Rule*; File Number S7-27-10

Dear Ms. Murphy:

Thomson Reuters welcomes the invitation to submit comments to the Securities and Exchange Commission ("Commission" or "SEC") on the proposed rule regarding the mitigation of conflicts of interest.¹ Thomson Reuters supports the SEC's efforts to implement Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), generally, and to improve the governance of Security-Based Swap Execution Facilities ("SB SEFs") and address conflicts of interest when they arise. Thomson Reuters believes the SEC should be promoting competition across markets, and that its regulations should allow SB SEFs to operate efficiently while meeting the goals of Dodd-Frank.

BACKGROUND

The Proposed Rules will likely affect Thomson Reuters principally because of its operation (through subsidiaries) of the Thomson Reuters Dealing and Thomson Reuters Matching applications, and in particular its ownership interest in Tradeweb. Thomson Reuters Dealing is a leading global, multi-asset electronic trading platform and related data service providing trusted price transparency. Dealing was launched in 1982 and is now being used actively by over 18,000 professionals in over 125 countries for trading a diverse range of over 60 sub-asset classes including derivatives. Thomson Reuters Matching is an anonymous electronic trading application for the foreign exchange spot and swap markets with a central order book model. Both applications provide technology and connectivity for market participants and provide both pre- and post-trade transparency on an efficient and orderly trading platform together with post-trade efficiency. Tradeweb is a leading global provider of electronic trading platforms and related data services for the OTC fixed income and derivatives marketplaces.² Thomson Reuters anticipates that some or all of these trading platforms may have to register as SB SEFs under applicable provisions of Dodd-Frank and its implementing regulations.

¹ See generally, "Ownership Limitations and Governance Requirements for Security-Based Swap Clearing Agencies, Security-Based Swap Execution Facilities, and National Securities Exchanges With Respect to Security-Based Swaps Under Regulation MC" ("Proposed Rule"), 75 Fed. Reg. 65,882 (Oct. 26, 2010), to be codified at 17 C.F.R. Part 242.

² Tradeweb is filing separate comments in response to the Proposed Rule, and Thomson Reuters supports the comments made and alternatives proposed in that filing.

In addition to trading applications, Thomson Reuters offers exchanges, brokers, and market makers with the cross-border technical and communications capabilities, connectivity, trusted independent data, risk management and back office functionality that are essential to enable reliable and resilient market participation. Over half a million financial professionals in over 40,000 organizations across more than 155 countries manage risk, price portfolios, drive trading strategies and reach their clients and trading partners seamlessly across the Thomson Reuters community.

COMMENTS

Thomson Reuters' comments will address those aspects of the Proposed Rule that would: (1) impose new and significant independent director requirements on SB SEFs; and (2) require SB SEFs to organize various committees of their Boards of Directors along with internal disciplinary bodies. Thomson Reuters' comments will address each of these aspects in turn.

A. Independent Director Requirements

The Proposed Rule would mandate that at least a majority of the directors on an SB SEF's Board of Directors be "independent," that is directors who are independent of any conflict with a participant in the SB SEF. In general, Thomson Reuters (as an NYSE-listed company) supports the concept of requiring independent directors on boards of public companies. Thomson Reuters believes that in the context of a public company, independent directors play an important role in assuring investor confidence, and that their exercise of independent judgment helps maximize shareholder value in the company on whose board they sit.

Thomson Reuters urges the SEC not to extend the governance and ownership restrictions beyond the class of SB SEFs delineated in section 765(b) of the Dodd-Frank Act. This subsection directs the Commission to address conflicts of interest among those SB SEFs that have material debt or equity investment by swap dealers or major swap participants. SB SEFs that are wholly owned by entities that do not trade through the applications do not raise any of the concerns the Commission has identified regarding maintaining a balance between advancing commercial interests and fulfilling self-regulatory responsibilities.

In addition, Thomson Reuters agrees with the Commission's recognition that the operation of an SB SEF does not pose the same level of systemic risk as clearing agencies. 75 Fed. Reg. 65,905. Together, these factors support modification of the proposal so that it does not apply to SB SEFs that are not owned by SB SEF participants, as that term is defined in section 242.700(z).

To the extent the SEC imposes an independent director requirement, Thomson Reuters believes that the presence of two independent directors on the board of the SB SEF would be more than sufficient to ensure the Dodd-Frank objectives that an independent voice is present on the Board, to improve governance process, and to lessen conflicts of interest. This is especially true where an SB SEF is wholly owned by another entity or group of affiliated entities that are principally engaged in businesses unrelated to swaps. The Dodd-Frank objectives should not be interpreted so broadly that they threaten disrupting SB SEF operations or discouraging investment in new or existing SB SEFs. A rule that is overly prescriptive in board composition or that restricts the organic form of the SB SEF may

operate to suppress the number of new or expanded SB SEFs that will be available to accept the additional swaps that Dodd-Frank pushes towards regulated trading platforms. The SEC can achieve its objectives by requiring the presence on the SB SEF of two unconflicted, independent directors that are included in the governance dialog.

In any event, Thomson Reuters believes that the requirement of a majority of independent directors on the board is overly prescriptive. The SEC's preamble notes that its particular concern is that an SB SEF participant may have "financial incentives to limit the level of access to, and the scope of products traded on, these trading venues as a means to impede competition from other market participants." 75 Fed. Reg. at 65,905. Thomson Reuters believes that having independent directors participating on the board to the extent appropriate (as discussed above) is sufficient to address this concern, and there is no reason to require that a controlling vote on the board be vested in independent directors, especially in the case of an SB SEF that is wholly or majority-owned by *non-participant* owners. Requiring a majority of the board to be independent directors could result in an unnecessary and unreasonable shift of control of the strategic direction of the SB SEF from its majority or sole ownership. If the SEC determines to subject all SB SEFs to independent director requirements, and further concludes that having two such directors would not achieve the governance-related goals of Dodd-Frank, it should require no more than 35%, and in any event less than a majority, of those directors to be independent.

Thomson Reuters expresses its concern that the standard for who qualifies as an independent director is unduly restrictive. SB SEFs may be just one entity within a large family of corporations, such as Thomson Reuters, only a few of which (depending on upcoming entity definitions under Dodd-Frank) are engaged in the execution of derivatives trades. These other entities may have highly qualified employees who are very familiar with that SB SEF's relevant market and operations. However, under the proposed rule, § 242.700(j)(1)(ii) would disqualify such knowledgeable individuals from being an independent director on the basis that their employment with an affiliate of an SB SEF constitutes a 'material relationship' with the SB SEF, notwithstanding a lack of any conflict of interest with the orderly operation and regulatory compliance of the SB SEF. Section 765(b) of the Dodd-Frank Act focuses on mitigating conflicts of interest in connection with the interaction between swap dealers and major swap participants, on the one hand, and clearing agencies, national securities exchanges, or SB SEFs on the other. Accordingly, Thomson Reuters suggests that § 242.700(j)(1)(ii) of the proposed rule should be revised to permit persons to serve as independent directors of an SB SEF if they are employed by affiliated entities and otherwise have no material relationship with such SB SEF nor with any other SB SEF, security-based swap dealer, or major security-based swap participant participating on such SB SEF.

If the SEC revises the proposed rule as suggested in the previous paragraph, it should also clarify that the restriction in § 242.700(J)(2)(iii) would be limited to payments received from or in relation to affiliates which are SB SEFs, security-based swap dealers, or major security-based swap participants participating on the SB SEF in question. In addition, it would be useful for the SEC to issue guidance, so that boards of directors can assess and make findings regarding their independent directors and on salaries or other compensation made to such independent directors by virtue of their employment at affiliated corporate entities. The compensation and bonus systems employed by many large corporate group structures in which an SB SEF may be owned are multifaceted—an employee's bonus system may depend on the performance of many components of the broader corporate family, and the amount of compensation or bonus that is attributed to the registered entity

may be so attenuated that it is doubtful that the individual would cast a board-level vote based on that potential compensation impact. Thomson Reuters suggests that a board member can be considered “independent” unless a substantial portion of his or her compensation is directly and substantially related to the performance of the regulated SB SEF or is attributable to an affiliate that participates in trading on the SB SEF. Specific agency compliance guidance in this area now will help avoid any confusion regulated entities could encounter in applying these provisions in the future.

In any case, the SEC should include a waiver provision for use in appropriate exigent circumstances, for example if it finds, as Thomson Reuters believes may be the case, that the number of qualified, non-affiliated independent directors is insufficient to the number of positions they would have to fill under this proposed rule.

B. Board Organizational Requirements

The Proposed Rule would also require SB SEFs to establish numerous committees within their boards of directors as well as disciplinary bodies to address misconduct.

As currently proposed, these would be:

- a “Regulatory Oversight Committee,” which would monitor the effectiveness of the SB SEF’s regulatory program and the performance of its Chief Compliance Officer. The Regulatory Oversight Committee must be “composed solely of independent directors.”
- a “Nominating Committee,” which would be charged with nominating candidates for membership on the SB SEF’s Board of Directors. The Nominating Committee would have to be composed “solely of independent directors.”
- Any formed “Executive Committee” would have to be composed of “a majority of independent directors.”

The Proposed Rule would prohibit any disciplinary panels established by an SB SEFs from being dominated or disproportionately influenced by participants on that SB SEF, and would require the panel to include at least one person who would qualify as an independent director.

Thomson Reuters supports the creation of a Regulatory Oversight Committee to monitor the sufficiency and effectiveness of the SB SEF’s self-regulation. Thomson Reuters suggests that the ROC should be composed of 51% rather than 100% independent directors. A majority of independent directors is sufficient to protect self-regulatory functions from conflicts of interest, and a higher composition rate would silence the informed voice of the SB SEF organization and its role in overseeing its regulatory compliance. In addition, the requirement in Dodd-Frank section 763 that an SB SEF have a Chief Compliance Officer will provide additional compliance assurance. Requiring a simple majority of the ROC to be independent directors will allow the SB SEF’s management to bring to bear their intimate familiarity with the company and the market.

Thomson Reuters also supports the establishment of a Nominating Committee, though it should be composed only of a majority (rather than solely) of independent

directors, and its role should be limited to the nomination of independent directors rather than all directors, so as to preserve a role for the owner of an SB SEF to appoint a certain number of directors. In addition, as with a public company, there should be a mechanism provided for in the applicable rules by which shareholders may nominate directors as well. Otherwise, the Proposed Rules would give public company shareholders greater freedom to nominate directors than shareholders in a private company, and independent directors would have the ability to be entrenched and insulated from any assessment by the shareholders of their performance. Such a result would be highly anomalous. Thomson Reuters believes that having a majority of independent directors on a nominating committee that is charged with making all director nominations is unduly onerous relative to the conflicts that may be ameliorated.

Regarding any Executive Committee the Board elects to establish, Thomson Reuters believes the committee should include at least one independent director, but it should be exempt from this requirement where the mandate and authority of a particular Executive Committee is unrelated to the core regulated aspects of the SB SEF.

Thomson Reuters remains concerned that the proposed independent director requirements pose a risk of stifling the ability of a regulated company to assemble the best Board possible, and for an SB SEF wholly owned by a wider business enterprise to be run in an efficient manner while still ensuring its governance benefits from active involvement of directors not beholden to the interests of participants in the facility. The high independent director composition requirements could exclude good and experienced candidates from consideration, erode a board's authority and business judgment unnecessarily and overly restrict how boards of directors choose to delegate (or not delegate) authority to committees.

CONCLUSION

Thomson Reuters remains committed to working with the SEC to support a common-sense and efficient implementation of the requirements of the Dodd-Frank Act. We thank the Commission for considering the foregoing comments on the proposed rule.

Sincerely,



Nancy C. Gardner
Executive Vice President & General Counsel
Thomson Reuters Markets