UBS Investment Bank

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

Dear Mr. Stawick:

UBS Securities LLC ("UBS") is submitting this letter in response to the Notices of Proposed Rulemaking on the Implementation of Conflicts of Interest Policies and Procedures by futures commission merchants, introducing brokers, swaps dealers, and major swap participants,[1] in which the Commodity Futures Trading Commission (the "Commission") solicited comments on its proposed rules relating to Sections 731 and 732 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). We strongly support the views and analysis set out in the letter submitted by the Futures Industry Association, International Swaps and Derivatives Association, Inc. and Securities Industry and Financial Markets Association on January 18, 2011 (the "Trade Association Letter") and would like to expand on several of the points made in that letter.

The Proposed Rules set out a laundry list of specific determinations[2] by clearing personnel that trading personnel in a swap dealer may not "attempt to influence." In addition, as applied to futures commission merchants, the Proposed Rules require an information barrier that restricts trading personnel from "participat[ing] in any way with the provision of clearing services and activities" of the futures commission merchant. We believe that these provisions go beyond the requirements of the Dodd-Frank Act for the reasons expressed in the Trade Association Letter. We do support, however, a requirement that clearing businesses implement information barriers designed to prevent trading personnel from obtaining information relating to client positions with third-party swap dealers.[3]

The Trade Association Letter also notes that the Proposed Rules erect disproportionate barriers and unnecessary obstacles to servicing client accounts and highlights that those barriers and obstacles operate to the detriment of clients who benefit from the integrated nature of full service financial institutions. We strongly agree with that analysis. In our view, a full service financial institution should be free to operate its swap clearing business as a partnership with its trading businesses.

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[1] 75 Fed. Reg. 70152 (Nov. 17, 2010) and 75 Fed. Reg. 71391 (Nov. 23, 2010) (together, the "Proposed Rules").
[2] Those activities include whether to offer clearing services and activities to customers, whether to accept a particular customer for clearing, whether to submit a particular transaction to a particular derivatives clearing organization, setting risk tolerance levels, determining acceptable forms of collateral, and setting fees for clearing services.
[3] As noted in the Trade Association Letter, such information barriers are long-established in the prime brokerage business of full service financial institutions to mitigate the conflicts of interest that could arise from the flow of position information from the prime broker to the trading businesses.

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Full service financial institutions generally include personnel that offer both swap trading and clearing services. It is our experience that clients view trading and clearing as related activities and generally expect personnel from both areas to work together to provide client education and service, to address client questions relating to choice of and risks associated with different swap clearing entities and execution facilities, and to tailor product and service offerings so that they meet their requirements.

Once a client chooses to take advantage of the offering of a particular institution, the ability to leverage expertise across the full range of products and services is fundamental to the client experience. This is particularly important since swap clearing will likely be just one component of the products and services used by a client, which may include swaps subject to a clearing requirement (or which the client otherwise chooses to clear), swaps that cannot be cleared, exchange-traded futures and derivatives, and securities and other instruments. As a result, we expect that many clients will require cross-product services such as multi-product reporting, unified collateral management, and other similar add-on services that cannot be made available without close cooperation between trading and clearing personnel.

Finally, if a firm operates its swap clearing business as a partnership with its trading businesses, it may choose to offer swap clearing services to clients of the trading businesses as a value-added service and, in doing so, to subsidize the costs of those clearing services with such clients. Nothing in the Dodd-Frank Act prohibits a firm from providing clients with execution together with subsidized clearing services. We believe that this approach is in the best interests of clients.

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UBS would like to thank the Commission for the open manner in which they have addressed the issues arising in connection with the implementation of the Dodd-Frank Act. We would welcome the opportunity to provide any additional information regarding our view on this topic, as well as any other issues related to the Dodd-Frank Act.

Respectfully submitted

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