July 11, 2011

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

Re: Margin Requirements for Uncleared Swaps for Swap Dealers and Major Swap Participants 17 CFR Part 23 RIN 3038 AC97

Dear Mr. Stawick:

Reval.com, Inc. ("Reval") appreciates the opportunity to submit its comments in response to the Commodity Futures Trading Commission's ("Commission" or "CFTC") April 28, 2011, Margin Requirements for Uncleared Swaps for Swap Dealers and Major Swap Participants 17 CFR Part 23 RIN 3038 AC97 ("Rule").

Reval® provides end-users of OTC derivatives with an award-winning Web-based platform that supports derivative risk management and hedge accounting. With over 500 of the world's leading corporations, and financial institutions using Reval's services to better manage foreign exchange, interest rates, energy, credit and commodities, Reval is uniquely positioned to understand how end-users use OTC derivatives to hedge commercial risk.

Reval has extensive experience on customized, less liquid OTC derivative hedges that will most likely not have to clear, as a majority of Reval's clients are non-financial end-users who will have an option to declare the swap exempt from clearing. As a result, a majority of our clients will be impacted by this margin rule for uncleared swaps and the following highlights some key concerns.

Neutralization of End-User Clearing Exemption

It has been made apparent that the intent of Congress was not to force margining on non-financial end-users of OTC derivatives. The End-User Exception to Mandatory Clearing of Swaps proposed in 17 CFR Part 39 RIN 3038–AD10 was created specifically for the purpose of providing relief from the additional costs and burden associated with the posting of margin for cleared swaps. There have been numerous statements from members of Congress after the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Act", "Dodd-Frank") was passed without a definitive, overall exemption from margining for end-users, encouraging the regulators to provide a relief from margining through the rule writing process.

Although the Commission can say it has met this request by not applying the margin rule directly to end-users but just to Swap Dealers and Major Swap Participants (MSP) and by not prescribing a limit on the size of the threshold amount, above which the counterparty must post margin, the uncertainty that a non-financial end-user may have to post margin remains high. The risks are that the Swap Dealers and MSPs will be driven towards keeping the thresholds low or even at zero in order to drive business towards the cleared market, which will have lower capital requirements and its own burden of managing the margin and reporting requirements associated with uncleared swaps. In effect, the end-user may not have much of an option to elect its right to exempt a trade from clearing, as the costs and inevitable likelihood of

posting margin anyway may be as high and thus negating the benefit intended by the clearing exemption rule.

The Commission should consider extending the framework created for the end-user clearing exemption to the margin requirements proposed, whereby if the end-user does meet the requirement for the clearing exemption, then the swap would also be exempted from any margin requirements set forth in the Rule.

Documentation & Process Burden

A great majority of end-users do not have ISDA Credit Support Annexes (CSAs) in place today, and in a recent poll conducted by Reval, 68% of end-users do not have any kind of collateral arrangement with their Swap Dealer. That number could be even higher if smaller companies below the Fortune 1000 level are included. The reason for this is that most end-users do not require a CSA of their Swap Dealers as they are typically net borrowers and receive loans from these banks and therefore do not typically have credit exposure to the Swap Dealer. Swap Dealers can enter into CSAs with large companies that are active in OTC derivatives, but they typically do not require CSAs of their medium-to-small borrowers because they are comfortable with the credit risk to the end-user through its loans, and the volumes of OTC derivatives with these end-users are not typically high.

For those that do have a CSA in place, the variation margin above the threshold is typically bi-lateral, where either the Swap Dealer or the end-user can post/collect collateral depending on the net position of the portfolio with respect to the threshold set in the CSA. Initial margin is not even defined in most CSAs, and other changes to collateral provisions (segregated accounts, prohibition of rehypothecation) will require the amendment of all CSAs.

Therefore, all end-users will have costs for negotiating new or existing CSAs, the intent of which, in many cases, may be to have a high enough threshold so that they would never—hopefully—go into effect.

This legal cost should be considered in addition to the cost of monitoring the CSA terms. Companies will have to hire additional qualified staff and build the proper process and systems to monitor CSAs, which will not be standard across all Swap Dealers. Even if the threshold is set high, it would be the fiduciary responsibility of the end-user to ensure that it tracks the positions versus the various thresholds in the event it may need to post margin.

Ability to Collect Margin

It is clear that the intent of having the Swap Dealers collect, not post, initial margin and, potentially, variation margin is to help protect the financial system, but this fails to address the credit risk concerns of the end-user to the Swap Dealer. As stated earlier, this concern is typically not present if the bank lends the end-user funds. But the "push-out" rule that may force non-US banks to separate out all of their swaps business and all banks to separate out their non-precious metals and oil-based commodities swap business, would result in end-users needing to set up swap credit lines with non-bank Swap Dealers who do not lend them funds. By not allowing the two-way posting of margin under a CSA with a non-bank Swap Dealer, the end-user is in a position of being forced to take on credit risk it did not have to before Dodd-Frank, especially if it needs to hedge non-precious metals, agricultural and non-oil based energy risks.

Barring an outright margin exemption for end-users, the Commission should try to closely replicate the current mechanics for margin posting and collecting that is used in bilateral CSA agreements between bank Swap Dealers and their end-user counterparties. Initial margin requirements should not be required to be posted and the variation margin should be allowed to be collected from the Swap Dealer, not just posted to the Swap Dealer.

Unintended Consequence

To put things in perspective on the cost of margining to end-users, if an end-user is required to post margin and does not have the collateral on hand to post, it will have to borrow funds to raise the cash to meet the margin call. For most end-users, this may mean borrowing from the *very bank* that it may have to post margin to if the bank is also the Swap Dealer. It is difficult to believe that an intended consequence of Dodd-Frank would be to increase the costs for end-users to hedge in this manner, while also helping a bank's lending business.

Conclusion

End-users of OTC derivatives were not to blame for the recent global financial crisis, and Congress has made it clear that regulation should minimize the impact on end-users. Cost increases and constraints on hedging commercial risks, which could result in a company's inability to hedge the risk or a company's need to divert funds towards these costs and away from hiring and spending, should be seriously considered.

Without a clear-cut exemption for end-users from margin and capital requirements for uncleared swaps, the costs associated with hedging commercial risk are in danger of exceeding the benefits, and the end-user either will be forced to enter into a clearable swap that requires daily margin and does not meet its customized need, will chose not to hedge at all and take on more risk than it does today, or worse, will find an offshore market that has less stringent margin requirements.

Sincerely,

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