THOMSON REUTERS

Thomas H. Glocer
Chief Executive Officer

December 12, 2011

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

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

RE: Core Principles and Other Requirements for Swap Execution Facilities, Proposed Rules, **RIN Number 3038-AD18**; Registration and Regulation of Security-Based Swap Execution Facilities, Proposed Rules and Proposed Interpretation, **RIN 3235-AK93**.

Thomson Reuters welcomes the opportunity to submit this letter to the Commodity Futures Trading Commission ("CFTC") and the Securities and Exchange Commission ("SEC") (together, the "Commissions"). This letter is intended to follow-up on our meetings the week of November 14, 2011 with Commission representatives regarding the above-captioned proposed rules (the "Proposed Rules") establishing core principles and other requirements for swap execution facilities ("SEFs") under the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank").[1]

We strongly support Dodd-Frank's objectives of promoting the trading of swaps on SEFs and enhancing pre-trade price transparency in the swaps markets. As discussed in more detail below, we urge the Commissions to adopt certain clarifications and modifications to the Proposed Rules that would help achieve those objectives by facilitating the continued operation in the United States of established multilateral derivatives execution paradigms, including those utilized by Thomson Reuters peer-to-peer electronic trading platform, Thomson Reuters Dealing. In our view, the clarifications and modifications discussed below would be fully consistent with the

1 References to "swap execution facilities" or "SEFs" herein include "security-based swap execution facilities" and references to "swaps" herein include "security-based swaps," unless otherwise specified or required by context.

The Thomson Reuters Building
3 Times Square
New York, NY 10036

O +1 646 223 7788
thomas.glocer@thomsonreuters.com

thomsonreuters.com

relevant provisions of Dodd-Frank. They are also necessary for the timely implementation of Dodd-Frank, the continued competitiveness of U.S. markets, and the harmonization of U.S. rules with those in the European Union ("EU").

I. Background on Thomson Reuters Dealing

Thomson Reuters Dealing is a leading global, multi-asset electronic trading platform providing price transparency and related data services. It 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 foreign exchange ("FX") forwards, non-deliverable FX forwards, FX options, cross-currency swaps, overnight index swaps and interest rate swaps. Thomson Reuters currently operates a multilateral trading facility ("MTF") registered with the UK Financial Services Authority ("FSA") and has had several discussions with the FSA with a view to extending the scope of our MTF permissioning to include the Thomson Reuters Dealing service. Following a recent review of Thomson Reuters Dealing, its proposed rulebook and compliance capabilities, the FSA has confirmed that Thomson Reuters Dealing can meet the requirements set down by the Markets in Financial Instruments Directive ("MiFID") and that, consequently, our MTF permissioning can indeed be extended to include this service. We currently anticipate that Thomson Reuters Dealing will register with the CFTC and SEC as a SEF under Dodd-Frank.

Thomson Reuters Dealing is a peer-to-peer system, with no inherent concept of "price taker" or "price maker" outside of a given transaction. All participants, which include banks, institutional investors and corporations, have impartial access to a wide range of pre-trade price information, including real-time quotation data from over 2,000 market makers and brokers. Such impartial access is provided through a centralized screen of indicative quotes from those who wish to indicate a quote, and this screen displays the best bid/offer at a given moment. Thomson Reuters Dealing facilitates impartial execution of transactions using a request for quote ("RFQ") functionality. While participants interested in effecting a trade are not required to call multiple participants, they have that ability and typically call a number of other participants for a price in the instrument and may call up to 26 participants on a non-discriminatory basis from a single key station.

Thomson Reuters Dealing's peer-to-peer RFQ system facilitates execution across a wide range of instruments, jurisdictions and institutions. Less standardized asset classes, such as Fx options and cross-currency swaps, are not sufficiently liquid to support trading using a central order book functionality. In addition, in some jurisdictions, the communication infrastructure is not capable of supporting the low latency necessary for trading using such a functionality. Because of its peer-to-peer infrastructure, Thomson Reuters Dealing can support access to competitive pricing and execution in those asset classes and jurisdictions while at the same time providing a secure communication network, full electronic audit trail, legally binding confirmations, and post-trade processing to central counterparties and trade repositories. Moreover, like a central matching functionality, Thomson Reuters Dealing provides a neutral platform that allows each participant to provide liquidity and to access liquidity, subject to each participant's own credit criteria and execution objectives.

II. Discussion

As noted above, Thomson Reuters supports Dodd-Frank's objective of promoting trading on SEFs. We also support increased pre-trade price transparency, but believe that the level of required transparency should be appropriate to the liquidity and other trading characteristics of the covered instruments. Not all over-the-counter ("OTC") derivatives are sufficiently liquid to support trading using the central order book functionalities common in the futures and listed equities markets. Accordingly, a variety of other multilateral trading functionalities exist currently for OTC derivatives.

Congress recognized this in adopting Dodd-Frank's SEF definition. Dodd-Frank requires SEFs to permit multiple participants to access the bids and offers of multiple potential counterparties, but provides each SEF with the flexibility to determine the particular execution paradigm it wishes to use to achieve this functionality.

By including certain requirements that go beyond the statutory SEF definition, however, the Proposed Rules, if adopted, would frustrate the statutory objectives of promoting SEF trading and delay implementation of Dodd-Frank within established liquidity pools. Some OTC derivatives do not have sufficient liquidity to support trading with the level of pre-trade price transparency that the Proposed Rules would require SEFs to offer. Those requirements would also go beyond the requirements contemplated in the EU and other G-20 partners, which presents the prospect of reducing U.S. access to liquidity and reducing U.S. competitiveness by causing liquidity to migrate outside the United States to those other jurisdictions.

Accordingly, consistent with Dodd-Frank's SEF definition and the goals of promoting pre-trade transparency and trading on SEFs, we urge the Commissions to adopt the modifications to the Proposed Rules described below.

A. More Flexible Pre-Trade Price Transparency Requirements

The CFTC SEF Proposal would require SEFs to provide platform participants with the ability to post both firm and indicative quotes on a centralized electronic screen accessible to all SEF participants.[2] The SEC SEF Proposal would require a SEF to provide a functionality that allows any participant to make and display executable bids or offers to all other SEF participants if the SEF participant chooses to do so.[3]

---

2 *See* CFTC Proposed Regulations 37.9(b)(2), Core Principles and Other Requirements for Swap Execution Facilities, 76 Fed. Reg. 1214, 1241 (Jan. 7, 2011) ("CFTC SEF Proposal") ("An applicant seeking registration as a swap execution facility must, at a minimum, offer trading services to facilitate Required Transactions by providing market participants with the ability to post both firm and indicative quotes on a centralized electronic screen accessible to all market participants who have access to the swap execution facility.").

3 *See* SEC Proposed Rule 242.811(e), Regulation and Registration of Security-Based Swap Execution Facilities, 76 Fed. Reg. 10948, 10954 (Feb. 28, 2011) ("SEC SEF Proposal") (". . . the [SEC] proposes to ... require a [security-based] SEF to provide at least a basic functionality to allow any participant on the [security-based] SEF the ability to make and display executable bids or offers accessible to all other participants on the [security-based] SEF, if the participant chooses to do so").

These proposals could be read to require that a SEF offer a functionality, similar to a central order book, through which any SEF participant may directly post a firm quote displayed to all other SEF participants and "click" the quote for execution. Congress explicitly rejected the notion that SEFs need to provide such a "post-to-all" execution functionality. In particular, it modified the SEF definition to make it clear that SEFs may utilize a broader range of execution paradigms than "trading facilities," which is a defined term under the Commodity Exchange Act ("CEA") for platforms using multiple-to-multiple execution functionalities that execute transactions through the interaction of trading interest with firm, displayed quotes. Accordingly, the SEF definition does not require that the executable bids and offers in a SEF be "open to multiple participants"—a functionality that is, in contrast, required for a platform to be considered a trading facility under the CEA. Recognizing the Commissions' definitional authority under Dodd-Frank, the Commissions should not reengineer the SEF definition to impose a functionality that Congress consciously and expressly rejected.

Furthermore, there are other ways in which a platform may provide pre-trade transparency to its participants other than allowing them to display firm quotes. For instance, as noted above, Thomson Reuters Dealing allows its participants to access bids and offers from over 2,000 market makers and brokers. A participant observing a bid or offer at which it wishes to trade can send an RFQ to the participant displaying that bid or offer, and can obtain superior pricing by putting the quoting participant into competition with up to 25 others at the same time. The number of counterparties contacted depends to some degree on the bespoke nature of the trade. In a market significantly less liquid than equities, the wider knowledge of a buying and selling "interest" in the market tends to move the pricing away from the original requesting party, so a "post-to-all" execution functionality works against the original customer's interest. Participants initiating RFQs utilize the system's pre-trade transparency to confirm whether the responses to their RFQ are competitive by comparing a quote with prices currently displayed on the system, without alerting the wider market to their interest.

Requiring Thomson Reuters Dealing and other prospective SEFs to take the additional step of building a "post-to-all" execution functionality would, at best, provide little additional transparency benefits. In many asset classes that are traded OTC, the bespoke nature of the prospective trade means that there are few participants in the wider market who have a natural or existing interest in that trade, resulting in the posting of very few firm quotes. At worst, by requiring a complete overhaul of existing platforms, it would prevent U.S. market participants from trading on those platforms for a significant period of time.

Accordingly, we request that the Commissions clarify that their interpretations of the SEF definition would be satisfied if participants accept displayed quotes by negotiating with the displaying participants using an RFQ functionality. This clarification would assure that existing RFQ platforms can qualify as SEFs without having to substantially modify their functionalities, so long as they provide for the display of quotes prior to the RFQ process. It also would be consistent with current proposals for pre-trade price transparency under pending revisions to MiFID in the EU.

B. Application of Execution Priority and Execution Pause Requirements Only to Order Book Platforms

The SEC SEF Proposal provides that a SEF that allows participants to display firm quotes (which, under the SEC SEF Proposal, would include all SEFs) must be designed so that all trades, including those to be executed via RFQ, interact first with pre-existing resting bids and offers available at an equal or better price. The CFTC SEF Proposal would require that resting bids or offers for the same swap be "taken into account" and communicated to the sender of an RFQ, and the CFTC has separately proposed to prohibit any person from buying a contract on a SEF at a price that is higher than the lowest available offer price on the SEF and/or selling a contract on a SEF at price that is lower than the highest available bid price on the SEF, unless the person exhausts all available bids or offers in the order book. In addition to these "sweep the book" requirements, the CFTC SEF Proposal would require a minimum delay of 15 seconds before a market participant could execute as principal against a customer's order or, as agent, execute two customer orders against each other.

We ask the Commissions to confirm that, if they adopt those proposed requirements, the requirements would apply only to a SEF that operates a central order book functionality, including in conjunction with an RFQ functionality.[4] SEFs that only facilitate execution through an RFQ functionality, which as noted above should be permitted, should not be subject to these requirements. Thomson Reuters believes that these requirements are intended to encourage displayed quotes and prevent pre-arranged trades. These objectives are all rooted in the price-time priority execution environment characteristic only of anonymous central order books.

There is no need to require RFQ SEFs to "sweep the book" or impose a 15-second pause to assure beneficial price competition and execution dynamics. Participants seeking quotes can themselves effectively "sweep the book" at their own option. Additionally, the structure of the Thomson Reuters Dealing platform provides the proper incentives for a participant being asked for a price to provide a competitive price for an instrument (taking into account its own counterparty credit risk considerations). The Thomson Reuters Dealing platform is transparent, with pre-trade transparency provided through accurate indicative quotations. Any Thomson Reuters Dealing platform participant with interest in a market may access pre-trade pricing on a live basis, 24 hours a day, 7 days a week. The combination of streaming quotations where the identity of the quoting party is disclosed, as well as the ability of different parties to be put into competition through an RFQ functionality, creates a competitive pricing dynamic on the Thomson Reuters Dealing platform. Imposing additional "sweep the book" and execution pause requirements would only delay the time at which Thomson Reuters Dealing and other RFQ platforms could operate in the United States as SEFs, delaying significantly the implementation of Dodd-Frank.

---

4 In addition, we note that the length of any execution pause must be calibrated to the relevant instrument. Imposing a pause of 15 seconds on execution for more liquid instruments, such as nondeliverable FX forwards, would expose brokers and dealers to high levels of market risk and require them to provide worse pricing to their customers to adjust for that increased risk.

C. More Flexible RFQ Requirements

Dodd-Frank's SEF definition does not prescribe a minimum number of recipients for each RFQ. Rather, the most faithful reading of the statutory SEF definition would give a participant the ability to send an RFQ to at least one participant (but potentially more), at its option, if it determines that doing so will best meet its execution objectives. In this regard, we agree with the SEC's proposed approach to provide discretion regarding the number of recipients to the RFQ sender.[5]

However, the SEC's proposal to mandate that a SEF must provide the functionality to allow participants to send an RFQ to all SEF participants goes well beyond the statutory mandate under Dodd-Frank and presents serious practical difficulties for larger platforms, such as Thomson Reuters Dealing with over 18,000 participants. Building such a functionality could take multiple years. It is also not necessary to assure price competition. We urge the Commissions instead to require that a SEF permit a SEF participant to send an RFQ to more than one other participant simultaneously if it so chooses—consistent with Dodd-Frank's SEF definition—and also to require that SEFs establish impartial criteria for which participants in the platform may receive an RFQ.

III. Conclusion

The clarifications and modifications discussed above would permit Thomson Reuters Dealing and other existing multilateral execution platforms to continue operating in the United States. Absent these clarification and modifications, the Commissions' SEF rules would require significant modifications to the technological architecture of existing regulated and transparent swap trading platforms that currently provide significantly enhanced transparency, liquidity and execution benefits to large constituencies of market participants, which would either delay significantly the implementation of Dodd-Frank or exclude U.S. participants from significant existing liquidity pools. In addition, over the longer term, more flexible SEF rules would lower barriers to entry for SEFs, encourage competition between SEFs, promote innovation and ultimately have a positive effect upon SEF trading and swap liquidity.

We also encourage the Commissions to be mindful of assuring consistency between their SEF execution requirements and models that are accepted in other jurisdictions under which existing multilateral trading platforms currently operate. This is particularly important given that most major platforms operate with broad cross-border participation. To assist the Commissions in accomplishing Dodd-Frank's objectives in the context of a global market, Congress mandated that the Commissions seek international harmonization with their non-U.S. counterparts, including with respect to swaps entities such as SEFs.[6] Based on our experience, the

---

[5] *See* SEC SEF Proposal, 76 Fed. Reg. 10,948, 10,952 (Feb. 28, 2011) (observing that "[i]n some instances requestors may prefer to limit the number of recipients of an RFQ as a way to protect proprietary trading strategies as dissemination of their interest to multiple dealers may increase hedging costs to dealers, and thus costs to the requestors as reflected in the prices from the dealers").

[6] *See* Dodd-Frank § 752 (requiring the Commissions to "consult and coordinate with foreign regulatory authorities on the establishment of consistent international standards with respect to the regulation...of swaps, security-based swaps, swap entities, security-based swap entities . . .").

modifications discussed above would make the Commissions' rules more consistent with those of other major jurisdictions, including MTF requirements in the EU.

*   *   *

We look forward to working with the Commissions on these proposed rules and would welcome the opportunity to meet with their respective staffs to discuss these issues further.

Sincerely,

Thomas H. Glocer