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March 2, 2020

Mr. Christopher Kirkpatrick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington DC 20581

Re: Post-Trade Name Give-Up on Swap Execution Facilities; Proposed Rule - RIN 3038–AE79

Dear Mr. Kirkpatrick:

Citibank, N.A. ("Citi")[1] is pleased to submit these comments in response to the Post-Trade Name Give-Up on Swap Execution Facilities Proposed Rule (the "Proposal") published by the U.S. Commodity Futures Trading Commission ("CFTC" or "Commission") on December 31, 2019.[2]

Citi supports the Commission's goals of promoting swaps trading and competition on swap execution facilities ("SEFs"). However, Citi believes that the Commission should not adopt the Proposal in its current form. Specifically, Citi believes that more study is required prior to engaging in a rule change that may significantly shift market structures and result in unintended consequences. We agree with and reiterate the positions reflected in the letters submitted by each of the American Bankers Association, the Financial Services Forum and Securities Industry and Financial Markets Association.

Citi believes that, considering the importance of well-functioning and efficient derivatives markets, the Commission may also consider some form of time-limited pilot program that will allow testing of the assumptions regarding post-trade name give-up ("PTNGU") prior to effecting a final rule. We respectfully provide our discussion and recommendations below.

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[1] Citi, the leading global bank, has approximately 200 million customer accounts and does business in more than 160 countries and jurisdictions. Citi provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services, and wealth management. Our core activities are safeguarding assets, lending money, making payments and accessing the capital markets on behalf of our clients.

[2] 84 Fed. Reg. 72262.

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I. The Swaps Market Structure Has Organically Developed as a "Bifurcated" System

The swaps market structure has developed as a reflection of the liquidity profile of the products themselves. While futures or equities may trade in an anonymous, all-to-all fashion, less liquid products may require more complex market structures to operate efficiently. The swaps market has grown organically as a "bifurcated" market structure in which dealers provide swaps liquidity to clients bilaterally or via the traditional dealer-to-client ("D2C") platforms and, to the extent they hold residual risk from such liquidity provision, hedge such risk in the traditional dealer-to-dealer ("D2D") platforms. D2C platforms typically operate via request for quote ("RFQ") protocols, while D2D platforms typically operate via central limit order book ("CLOB") with PTNGU protocols.

II. The Current Market Structure Is Operating Efficiently

The current market structure is operating efficiently as evidenced both by qualitative and quantitative measures. First, data around pricing levels illustrates that the current market structure is working well. The Commission has previously noted that pricing provided via RFQ is often better than the pricing available on CLOBs, and that transaction costs in the current market structure are low.[3] Our internal analysis similarly shows that the majority of swaps executed on RFQ platforms occur at pricing that is similar to or better than that on D2D platforms.[4]

Second, we believe that the demand for non-dealer participation on D2D SEFs is overstated by some commenters.[5] We would suggest that a better metric for measuring overall buy-side interest would be the volume of trading attempted and/or conducted on anonymous CLOBS that are currently available on D2C SEFs. The fact that there is almost no volume on these platforms suggests that there is limited interest and liquidity in CLOB trading outside of the inter-dealer context.

Further, Citi's internal analysis indicates that the vast majority of trading takes place on the D2C market and that, moreover, the mix of products typically traded on D2D SEFs differ materially from those on D2D SEFs.[6] This leads us to conclude that the vast majority of our client base will continue deriving optimal liquidity via the current trading structure.

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[3] *Appendix 5—Dissenting Statement of Commissioner Dan M. Berkovitz, [SEFs] and Trade Execution Requirement,* 83 Fed. Reg. 61946 (Nov. 30, 2018) (discussing Collin-Dufresne, P., et al., *Market Structure and Transaction Costs of Index CDSs* (Sept. 12, 2017)).

[4] In addition, Citi's review of interest rate swap ("IRS") trading indicated that nearly 30% of D2C transactions are executed at better pricing levels than would have been available in the US Treasury market, which is among the most liquid markets in the world.

[5] Proposal, 84 Fed. Reg. at 72263, 72266, n. 59, 72271.

[6] In normal market conditions and at most trading levels, around 90% of SEF trading in IRS and credit default swaps on CDX indices, however measured, occurs on D2C SEFs. For IRS, roughly 60% of D2C trades are outrights swaps, whereas outright swaps account for less than 5% of trading on D2D SEFs. Swap spreads and CME/LCH basis swaps account for less than 10% of trades on D2C SEFs, but account for over three quarters of all trades on D2D SEFs. *See also* Barnes, C., "USD Spreadovers and SEF Market Share," *Clarus* (Aug. 14, 2018), https://www.clarusft.com/usd-spreadovers-and-sef-market-share/.

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III. Name Give-Up is a Tool that SEFs May Use to Help the Market Structure Operate Efficiently

We disagree with commenters that have suggested that PTNGU is a relic from the pre-Dodd-Frank Act era, when the majority of swaps traded on CLOBs were uncleared, and matched counterparties had to be identified to one another post-execution. While certainly that was one benefit of PTNGU at the time, it was not – and is not – the only benefit of the protocol.

Rather, it is our view that D2D SEFs may reasonably view PTNGU as an important tool in allowing for efficient dealer liquidity provision and client pricing within this market structure. A dealer's ability (or lack thereof) to hedge risks in the D2D market directly impacts the quality of pricing that the dealer can extend to clients. Where a D2D SEF has deep and consistent liquidity, a dealer may feel that it is able to provide narrower pricing to clients on D2C SEFs, because the dealer perceives that it will be able to quickly and fully hedge its residual risks. Where a D2D SEF has shallow and inconsistent liquidity, a dealer may feel that it must provide wider pricing to clients on D2C SEFs in order to account for the risk that the dealer cannot efficiently hedge itself. A CLOB without PTNGU may invite quoting that is inconsistent with and/or insufficient for the hedging needs of the market. By providing some degree of post-trade transparency, PTNGU (i) allows participants on a D2D SEF to identify quotes driven by firm interest to transact and transfer risk and therefore make more informed trading decisions (for example, in connection with a workup), and, (ii) in turn, discourages transient quotes that tend to overstate the liquidity provided. PTNGU therefore promotes the confidence in and dependability of liquidity in D2D SEFs that fosters narrower pricing to clients on D2C SEFs.

IV. Effect of a PTNGU Prohibition: Negative Impacts on Pricing, LIBOR Transition Efforts

In Citi's view, a prohibition of PTNGU as proposed may have material negative consequences on swaps markets and the liquidity therein. We believe that these negative consequences may be amplified by the impending London Inter-Bank Offered Rate ("LIBOR") transition efforts that the industry will experience over the coming months and years.

Traditional D2D SEF liquidity may be denigrated by incongruous trading practices that would ordinarily have been discouraged by PTNGU. D2D SEFs typically have reliable and consistent quotes. If new participants will be enticed to join D2D SEFs, some presumably may be participants that quote speculatively and intermittently, thereby diluting the reliable and consistent nature of quoting and trading that is the hallmark of D2D SEFs.

A denigration in quality of the liquidity in D2D markets would likely result in worse pricing for all market participants, particularly those participants who trade via D2C SEF and/or bilaterally. If indeed such non-dealer participants dilute the quality of liquidity on the D2D SEFs, dealers will have less certainty that they

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will be able to efficiently hedge their residual risks. This uncertainty may lead to worsening spreads for clients, reduced dealer participation in D2D SEFs, and greater volatility in swaps markets.[7]

We believe that these are not desirable outcomes in any environment, but we believe that this is a particularly inopportune time to experiment with swaps market structure given the concerns of possible LIBOR cessation, which the Financial Conduct Authority and the Federal Reserve have warned could arrive as early as the end of 2021. To the extent that market participants transition their swaps trading from inter-bank offered rates to replacement rates, it will be particularly important that markets operate reliably and efficiently to account for basis swaps used for hedging.

V. Recommendations

First, Citi recommends that the Commission engage in further quantitative and qualitative study prior to finalizing the Proposal. Second, if the Commission is determined to move forward with the Proposal, Citi recommends that the Commission include one or more means (such as a pilot) by which it can (i) test the assumptions and effects of a prohibition of PTNGU in a limited manner, for a pre-determined amount of time, to avoid broad market disruption and (ii) review the impact of a prohibition of PTNGU at the conclusion of the testing period to confirm that it has achieved the proposed benefits to liquidity and pricing.

We believe that a final rule must have sufficient study to show that the benefits of prohibition and a change in the existing market structure are reasonably expected to exceed the potential costs. Topics may include: (i) why existing fully anonymous CLOBs are unused, (ii) a review of impacts of fully anonymous trading in off-the-run treasuries markets, (iii) a review of impacts of fully anonymous D2D trading on the liquidity in D2C markets for emerging market bonds, and (iv) a comparison of liquidity of swaps markets, and related market structure, to those of futures and equities.

In order to limit immediate disruption to the market and mitigate future harms, the Commission should consider incremental alternatives. Examples might include (i) requiring SEFs to provide fully anonymous CLOBs as an option for participants or (ii) a pilot program in which there is a prohibition on PTNGU for a limited period of time in a specific set of products, in order to test the assumptions regarding new SEF participation, improved quality of liquidity and better pricing.[8]

Regarding the criteria for gauging the success of a prohibition on PTNGU within the framework of a pilot or similar 'look-back', we believe that there are a few simple factors that the Commission may consider.

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[7] Similar degradations in liquidity have occurred in other markets that have transitioned to fully anonymous trading. As just one example, we suggest the Commission look to the emerging market bond market, in which anonymous trading on D2D platforms led to less dependable liquidity and worsened client pricing.

[8] Citi agrees with and supports the positions expressed in the Financial Services Forum's letter regarding incremental alternatives and appropriate exclusions.

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The Commission has suggested that a prohibition on PTNGU would "encourage more participants to trade" on SEFs and that such participation would "promot[e] trading and competition on SEFs",[9] and that "negative pricing effects on SEFs would be unlikely."[10] These theories can be tested by measuring for (i) material increase in new market participants trading on SEFs (not merely a shift of participants from RFQ to CLOB), (ii) material improvement of market depth and additional liquidity providers on D2D SEFs and (iii) improved pricing to clients on D2C SEFs. If it has not seen such impacts — and in particular if any of the foregoing factors has worsened — then such the Commission should not move forward with a PTNGU prohibition.

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We appreciate the opportunity to submit our comments in response to the Proposal, and we hope that the foregoing is helpful to the Commission. We commend the Commission's efforts to promote the integrity, resilience, and vibrancy of the U.S. derivatives markets through sound regulation, and we believe our recommendations best support these outcomes. If you have any additional questions, please do not hesitate to contact the undersigned at Deirdre.Dunn@citi.com.

Sincerely,

Deirdre Dunn

Managing Director, Global Co-Head of Rates

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[9] Proposal, 84 Fed. Reg. at 72266.
[10] *Id*. at 72269.