CITADEL

May 22, 2020

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

Re: Swap Execution Facility Requirements and Real-Time Reporting Requirements (RIN 3038–AE94)

Dear Mr. Kirkpatrick:

Citadel appreciates the opportunity to provide comments to the Commodity Futures Trading Commission (the "Commission") on the proposal regarding the codification of certain no-action relief relating to the execution of package transactions, block trades, and error trades on SEFs (the "Proposal").[1]

Commission no-action relief was important in successfully transitioning the execution of standardized OTC derivatives onto multilateral, competitive, and transparent SEFs, as certain types of transactions required a more gradual or tailored approach. Now fully implemented, the SEF regime has yielded material benefits for market participants in terms of better pricing and liquidity, while reducing overall risk and complexity. As such, we support the Proposal's formal codification of the remaining no-action relief that allows additional execution flexibility for a narrow range of package transactions, and facilitates the execution of block trades and the efficient resolution of error trades on SEFs. This remaining no-action relief is narrowly tailored and is based on the nearly seven years of experience that the Commission has with the current SEF regime.

Below, we provide specific feedback regarding package transactions and error trades.

I. Package Transactions

Pursuant to Commission no-action relief, a phased approach was adopted for transitioning package transactions onto SEFs. Under this phased approach, certain categories of package transactions, based on liquidity characteristics, gradually became subject to the SEF execution requirement and the required methods of execution. Transitioning package transactions onto SEFs was important, as in certain asset classes, a significant percentage of overall trading activity is transacted as part of a package. For example, data has shown that over 50% of all USD interest rate swaps are entered into as a package.[2] This transition of most package transactions onto SEFs has:

[1] 85 Fed. Reg. 952 (Jan. 8, 2020), available at: https://www.cftc.gov/sites/default/files/2020/01/2019-28075a.pdf.

[2] *See* "Spreadovers: US Treasury Spreads in the Swaps Data," Clarus Financial Technology (March 23, 2105), available at: https://www.clarusft.com/spreadovers-us-treasury-spreads-in-the-swaps-data/.

- improved pricing and liquidity as SEFs offer access to more competitive and transparent trading with a greater number of liquidity providers;
- enhanced market stability and integrity given the monitoring and surveillance capabilities of SEFs; and
- reduced operational risk through the pre-trade credit check and straight-through-processing requirements that are applicable to SEF trades.

A small number of package categories continue to be eligible for Commission no-action relief from the SEF execution requirement or the required methods of execution. Examples include packages containing (a) both cleared and uncleared swaps or (b) both cleared swaps and certain instruments that are not regulated by the Commission.[3] We support codifying the remaining no-action relief as proposed.

However, it is important that the scope of the remaining no-action relief is not expanded. Packages that have transitioned onto SEFs have done so successfully, and reversing course by re-introducing additional exemptions would threaten the material benefits in terms of pricing, liquidity, transparency, and competition that have accrued to market participants trading package transactions on SEFs. For example, block treatment (e.g. more flexible methods of execution) should continue to only be granted to package transactions when all of the swap components are above the applicable block size. In our experience, the average notional value of a swap leg of a package is often larger than the average notional value of a standalone transaction. Therefore, it is appropriate to maintain the current approach with respect to granting block treatment to packages.

We also recommend that the Commission further engage with CME so as to allow invoice spread packages containing an interest rate swap and an interest rate future to trade on SEFs, bringing greater price transparency to market participants. Currently, CME Rule 538 prevents a swap that is traded on, or subject to the rules of, a DCM or SEF from serving as the related position component of an Exchange for Risk or Exchange of Option for Option transaction. In our view, there is no legal or operational justification for this limitation, and the conflict between CME Rule 538 and the SEF trading obligation must be resolved in order to facilitate the transition of invoice spread packages onto SEFs.

II. Error Trades

We support codifying the existing no-action relief which enables SEFs and market participants to efficiently correct transactions that have an operational or clerical error. This includes permitting SEFs to allow members to quickly correct an error trade on their own, with an *ex post facto* review performed by the SEF. We note it is important that error trade cancellations and corrected trades be properly reported pursuant to Parts 43 and 45, and recommend that the Commission ensure this topic is appropriately addressed in the Proposal.

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[3] We note, however, that spreadover package transactions involving a USD interest rate swap and a U.S. Treasury have successfully transitioned to SEF trading.

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We appreciate the opportunity to provide comments on the Proposal. Please feel free to call the undersigned at (646) 403-8200 with any questions regarding these comments.

Respectfully,

/s/ Stephen John Berger

Managing Director

Global Head of Government & Regulatory Policy