UNITED STATES SECURITIES AND EXCHANGE COMMISSION

JOINT SEC-CFTC ROUNDTABLE

TO DISCUSS SWAP EXECUTION FACILITIES AND

SECURITY-BASED SWAP EXECUTION FACILITIES

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P R O C E E D I N G S

MR. COOK: Good morning. I think we would like to get underway here. My name is Robert Cook. I'm the director of Trading and Markets at the SEC and on behalf of the staff of the SEC and the CFTC, it's my pleasure to welcome you this morning to this third in a series of joint staff roundtables on the implementation of the Dodd-Frank Wall Street Reform and Customer -- Consumer Protection Act.

To my right is my colleague from the CFTC, Rick Shilts, director of the Division of Market Oversight at the CFTC. It is a great pleasure to be collaborating with Rick and the rest of the CFTC staff on this initiative, and I would like to thank the staff of the CFTC and the SEC for all of their very hard work in putting this roundtable together and their ongoing close cooperation on the implementation of the Dodd-Frank Act.

I need to read a mandatory announcement related to the use of this room. So if you'll bear with me, but listen. In the unlikely event we must evacuate the building, please exit the multipurpose room, make a right to reach the main staircase to the main lobby and exit the building on F Street. Once out of the building, please follow SEC employees or SEC guards to the assembly area at 3rd and G Streets. If you're unable to easily use stairs, please notify an SEC employee or guard. In the event we must shelter in place because of an incident occurring outside the building, we ask that you remain in the multipurpose room -- that's the room we're in -- and await further instructions. Thank you. Back to our regularly scheduled program here.

The Dodd-Frank Act tasked the SEC and the CFTC with bringing greater transparency and oversight to the OTC derivatives markets. At our roundtable yesterday, we discussed the reporting and public dissemination of transaction information regarding swaps.

The purpose of today's roundtable is to provide a forum for discussing the implementation of the Dodd-Frank Act with respect to the trading of OTC derivatives. In particular, we'll be focusing on transitioning that trading onto regulated markets and issues regarding the creation and regulation of a new type of market called a swap execution facility or SEF.

Under the Act, the agencies are directed to establish a registration framework for SEFs and to set the regulatory standards for swaps to move from an unregulated trading environment to these new trading venues. In addition, the Act requires that with respect to swaps that are required to be cleared, the counterparties must execute the transaction on an exchange,designated contract market or a SEF unless no exchange, DCM or SEF makes a swap available to trade. The Act also requires that in order to maintain registration, a SEF must comply with certain core principles established in the Act, as well as any other requirements that the CFTC or the SEC may impose by rule or regulation.

Today we'll be focusing on our respective rulemakings regarding SEFs, including the definition of a SEF and its scope and activities, the mandatory trade execution requirement, the creation of a registration framework for SEFs and the SEF's compliance with and enforcement of its core principles.

We are very pleased to welcome to this discussion two panels of experts who have kindly agreed to join us today and share their insights, advice and recommendations. These panelists represent investors, end users, dealers, academia, exchanges and potential SEFs. We are grateful for your time and participation and we expect that your comments will be very valuable to the staffs as we develop proposals for a regulatory framework applicable to SEFs.

I would like to note that today's roundtable is not the only opportunity for interested parties to share their views on SEFs with us. Each agency has open mailboxes into which you may send comments on all of our OTC derivatives rulemakings. Then, of course, the types of rules that we are discussing here today will be formally published for public comment before they are adopted.

I need to make clear that the remarks, questions or lines of inquiry that you may hear from me or other SEC staff today represent only our respective views and not necessarily the views of the Commission, the individual commissioners, or our colleagues on the Commission staff. I should also make everyone aware that this meeting is being webcast and your remarks will be recorded.

With that, let me give Rick an opportunity to offer any introductory comments.

MR. SHILTS: Thank you, Robert. I also want to welcome all -- everyone here today, especially all the panelists for taking times out of their busy schedule to come here and give us their views on these important topics. Also to express my thanks both to Robert and the SEC staff, as well as the CFTC staff, in arranging for this roundtable, as well as all the other roundtables. It's a lot of work.

We're looking for a great discussion today and these are some of the most important topics that we're addressing with respect to these rulemakings and with respect to the definitions and responsibilities associated with swap execution facilities.

As Robert mentioned, the comments that I make or other CFTC staff, similarly we're not speaking for the Commission at the CFTC or the CFTC in general, and also to note that, again, this is not the only opportunity for interested parties to comment. We have a site on our -- a box on our website where traders and others can submit interested comments. And also, we're looking forward to the comments as the rulemakings come out, which we'll take into account over the next couple of months after we do publish them. So with that, we're looking forward to a great discussion today, and I'll turn it back to Robert. Thank you.

MR. COOK: Thanks, Rick.

So with that, let me welcome our first panel. And again, thank you for your participation today, and we're looking forward to your contribution to this discussion. Just as a way to kick it off, if I could ask that we just go down the line and if each of you could give us your name and state your affiliation please.

MR. SPRECHER: Hi. I'm Jeff Sprecher, chairman and CEO of IntercontinentalExchange.

MS. SLAVKIN: Heather Slavkin, AFL-CIO.

MR. OLESKY: Lee Olesky, Tradeweb.

MR. MacDONALD: Ben MacDonald, Bloomberg.

MR. JEFFERS: John Jeffers, OTC Global Holdings.

MR. HARDING: Julian Harding from the Tradition Group representing the Wholesale Markets Brokers Association.

MR. DuFOUR: Richard DuFour, Chicago Board Options Exchange.

MR. DOWNES: Andrew Downes, UBS.

MR. DENIZE: Yves Denize, TIAA-CREF.

MR. DE LEON: Bill De Leon, PIMCO.

MR. COOK: Thank you. And on the screen, Steve?

MR. SEMLITZ: Steve Semlitz from HESS Energy Company.

MR. COOK: Great. Thank you. And then we have staff from the CFTC and the SEC bookending the panel here. Maybe we could just quickly go down and you could introduce yourself and your division, please.

MR. DeBORD: Jon DeBord, DCIO.

MR. PRICE: Greg Price, DMO.

MS. PATEL: Dhaval Patel, Office of General Counsel.

MR. BRIGAGLIANO: Jamie Brigagliano, SEC Trading and Markets.

MR. EADY: Tom Eady, SEC Trading and Markets.

MR. BAUGUESS: Scott Bauguess, Division of Risk Strategy and Financial Innovation.

MR. SCHOTT: Sebastian Pujol, CFTC, Division of Market Oversight.

MR. MELARA: Mauricio Melara, Division of Market Oversight, CFTC.

MS. ADRIANCE: Riva Adriance, Division of Market Oversight, CFTC.

MS. SEIDEL: Heather Seidel, Division of Trading and Markets, SEC.

MS. BURKE-SANOW: Nancy Burke-Sanow, Division of Trading and Markets, SEC.

MR. COOK: Thank you. So the format today is that the staff from the CFTC and the SEC will ask questions and throw it out there. Anyone will be free to jump in and answer. When you speak, if you could please try to remember to begin with your name so that those who may not have a clear line of sight to you will know who is speaking.

Also, in the category of information that would have been useful to have had earlier, just make sure you push the button when you want to speak and it will be helpful if you push it again when you're done so that we don't have unnecessary feedback.

We have a -- this panel is going to run from -- until a break at 10:45. So we have a lot to cover, we have a lot of panelists and we have, I think, a lot to say about these issues. And so, we just ask that when you make your remarks, if you could limit your air time as appropriate to give everyone a chance to weigh in. And we may need to move the discussion along from time to time, too, because of a number of topics we would like to make sure we get the benefit of your thinking on. So bear with us if it comes to that.

So with that, we'll begin the first panel. There are two main topics that we want to talk about on this panel.

One is the definition and scope of a SEF, and the second is
the scope of the exception from the mandatory trading
requirement for SEFs. And with that, let's begin with our
first question.

MR. BRIGAGLIANO: Yeah. I'm going to ask for your
indulgence while I engage in a sometimes tedious exercise of
reading a definition, but it's so important. It's the
cornerstone of our discussion today. And that's the
definition of swap execution facility in the legislation. So
it's defined as, "A trading system or a platform in which
multiple participants have the ability to execute or trade
security-based swaps, or swaps, by accepting bids and offers
made by multiple participants in a facility or system through
any means of interstate commerce, including any trading
facility that (a) facilitates the execution of swaps between
persons and (b) is not a national securities exchange."

So, I would like to hear what the panelists' views
are on the type of trading that would meet this definition.

Do the goals of impartial access and pre-trade price transparency dictate a model such as a fully displayed electronic limit order book for a SEF? Are there swaps that currently have enough liquidity to trade on this type of market? And I invite the panelists to jump in and give their thoughts.

MR. OLESKY: I'm happy to start. It's Lee Olesky from Tradeweb.

To start off with, we -- getting to the definition of SEF -- our view is that a SEF should not be interpreted merely as a central order book. And the starting point for that, I guess, is the fact that there is such a definition or a word in the law - SEF - and that's separate from a DCM. So we would have to say that there is an assumption that this SEF is something other than DCM, otherwise it would be redundant to have both.

So our starting point is that this is something separate and that there should be an opportunity to have flexible trading models and protocols in order to support that model so long as you, you know, you're fitting within the core principles and you're achieving the policy objectives of what the legislation is about.

So that's pre-trade transparency. You know, we would argue things like electronic trading are great indications of that pre-trade transparency, the ability to execute a transaction at a price that you see on a screen, and to have multiple participants. And when we get into the multiple participant point, we think that means there should be multiple participants providing liquidity and multiple participants being able to access the liquidity.

MR. HARDING: Julian Harding. There are two components, I guess, in the statute that you've carefully read that are significant. The first being the multiple to multiple issue, which I think intended to drive at creating forces in a SEF environment, a genuine marketplace. Multiple to multiple insistence implies a marketplace that, in fact, the inter-dealer brokers for some 50 years or so have generally operated and chestrated a great dynamic system where each participant is a market maker and market taker in the same breath. That is a different thing to the central order book system that Lee is referring to and as you asked about.

The second component is the injection of the language by "any means of interstate commerce," which is an important element for us and for, I think, for the marketplace in that it preserves the ability to transact an organized transactions not just in electronic format, which one would contend allows for a better chance of optimizing liquidity in an institutional setting than just having been constrained to an electronic format.

MR. DuFOUR: I would add that, you know, although some products traded in the over-the-counter market may have sufficient liquidity to where they -- there might be a populated order book, that I would think in most cases, or in many cases, it would -- a typical SEF would be more like a request for a quote system where you might put up a trade you want to do, but there is not necessarily going to be bids and offers sitting in a book.

MR. DOWNES: Andrew Downes. I think as you look at the definition or the rulemaking in terms of defining a SEF, I think you need to take account of the liquidity of the market that we're talking about. And I'd say, you know, if you think that currently the markets that trade on exchanges, the order of volume in terms of those exchanges is in the hundreds of thousands, or at least tens of thousands or thousands. I think if we look at data for, say, the interest rate swap market, the most liquid point is the 10-year U.S. dollar interest rate swap. I think that trades, if we look at June and say 508 times a day, then that gives you a sense of the liquidity in that market.

If you look at the CDS market and take, for example, the most liquid name in the investment grade index, I think that's G.E. And that trades about 15 times a day. So I think, obviously, there's an exercise to define what should be SEF traded. And no matter where you draw that line, there will be a spectrum of liquidity of that which needs to be SEF traded. And therefore, the definition of what is a SEF needs to encompass a plurality of models because at one extreme, say if you look at certain most liquid on-the-run indices, one might think that's susceptible to a central order book approach, but at the other extreme, if you've got something that's only trading 15 or so times a day, that would probably be better traded through an RFQ model, providing it meets the requirements in terms of multiple participants, et cetera, et cetera.

So I think it's important to, for the definition to encompass multiple models. I think that's the key. And obviously to the extent that you encompass multiple models that allows for innovation, creativity and competition and that will drive liquidity to the best place depending on the spectrum of the product that we're talking about.

MR. MacDONALD: Ben MacDonald, Bloomberg. I would agree with a lot of the points that are being made. I think one of the interesting things about the derivatives market is that even looking at the benchmark space, there is ways to trade around the benchmarks, and not everything is -- can really be classified as just a pure benchmark or a benchmark trade.

I think that really goes to the point that there are multiple models that exist within the potential SEF space. RFQs are very favorable, for instance, in certain

instances, but there are other models that intermediate by
buyers and sellers. And I think it's important, especially
in the early days of the rulemaking, to allow for all of
those models, as long as they meet the principles, to coexist
together. And I think that will drive, you know, that will
drive a lot of innovation and liquidity in the market.

MR. SHILTS: Could I just -- as you're responding to the questions here, I'm just interested in you talking about the RFQ models, whether people think that the existing RFQ models would comply with the multiple to multiple requirement in the definition.

MR. DuFOUR: Richard DuFour. You know, CBOE has an existing RFQ model, which we call FLEX, which actually the other options exchanges have something similar too, and there are some roughly 200 trading firms that are qualified and use that. It doesn't mean you get 200 quotes every time you, you know, put in a request, but people monitor it on a full-time basis. So I think it would meet your definition of multiple participants.

MR. SCHOTT: If I could follow up to that. When you say that up to 200 people could see the request, is that only on one side or is that both the buy side and sell side we would be able to see?

MR. DuFOUR: You can -- when you put in a request for a quote, it can be -- you can put in a request to buy or sell or you can just ask for a quote on a particular product without indicating whether you're a buyer or a seller. Anyone that's monitoring the system will see whatever you put in.

There's typically then a time established by the person putting in the request, a maximum, I think, of five minutes, but generally much shorter, in which people then respond. So and then at the end of the response, you have the choice of doing nothing or going ahead and trading or you could, you know, you could be a firm and you could actually better the quote yourself and facilitate a customer.

MS. ADRIANCE: And just to follow up on that, when -- once -- you said like 200 people see this bid offer, just to -- either side with both -- you know, where they're requesting both and 200 people see it, 200 people can respond. What happens when there is a response? Is it limited -- is the ability to transact at that -- with -- on the response limited to the person who initiated the RFQ or is others in the market able to also join in?

MR. DuFOUR: I believe it's limited to the person that put in the request.

MR. OLESKY: This is Lee Olesky. We have a market in the U.S. treasury market, government bond market, we trade about 25 billion a day on average in the treasury market. And our RFQ system, the way it works in the U.S. treasury market, is you do have a request, prices come back from a group of banks. That's part of the session is a private session between the banks and the customer, but after the trade occurs, we flash the price so that the entire market sees what the price was for a transaction.

So in terms of, you know, sort of policy standard, what are you trying to accomplish there, well, you have the pre-trade price transparency you're after and you actually have post-trade price transparency for the market to observe, but you don't have a situation, at least in the treasury market, where you have the risk of interference between that privately negotiated transaction between two institutional participants. And that seems to have worked fairly well in a number of fixed income markets.

MS. ADRIANCE: If I could just ask one more question, to go back before we move on, because right before we started talking about the question about the RFQ and what does that mean, there was, I have it down that, I think it was -- I'm sorry, Bloomberg -- I'm going to mess up your name -- Ben MacDonald. Yeah. You said that -- you referred to the fact that there is different -- you know, some instances in an RFQ model might be the appropriate model to execute in that particular swap, but then there may be other instances where another model would be appropriate, could you talk more about what is the other models that you're talking about.

Are you talking about central limit order book or are you also thinking of third or fourth in time, you know, to other models besides central limit order book and RFQs because so far we've talked about those two. And it has been mentioned like but there is voice brokers -- but I wasn't sure what you were referring to.

MR. MacDONALD: Sure. At Bloomberg we actually operate two models for trading. One is a traditional RFQ model where participants go out and launch an inquiry to multiple dealers and then execute by inquiry. We also operate a model, which we call single dealer franchise. And essentially what we do is that we allow all of the liquidity makers to use Bloomberg as a distribution mechanism to display over a page on Bloomberg the -- you know, where they might have an ask, for instance, or where, you know, the markets that they're interested in, obviously low liquid stuff, is available in that market.

Our customers can look at as many pages as they want over the system, which means that they get, on the one hand, the price transparency and discoverability of looking at multiple quotes, but at the same time when they get to the actual executing part of the transaction, it allows them to execute on a one-to-one basis, which is important in many cases, you know, for both the buyer and the seller of the transaction who have both got concerns about that, you know, trade. So, you kind of get both of those models.

If you draw -- you know, in the treasury market and the cash markets where that model is a lot further along because there's a lot more electronic trading in those markets, you know, you can go as far as looking at people to display firm pricing in those markets in a very liquid space, which allows people to essentially, you know, achieve the same, you know, very fast level of liquidity.

MR. OLESKY: If I could just tag onto what Ben said because we have similar concepts, and the variations in different models, which I think was your question, we equally have a model that's similar to what Ben described, but is yet slightly different in that we call it streaming prices. So we have a different terminology for it, but in the interest rate swap market in Euro denominated swaps, a client can come in and request a stream of live prices from the bid side and offer side from a particular bank and have a live market in front of them to click to trade. Is that really an RFQ?

I think you do start to get into these definitional issues of what's an RFQ, what's a request for stream, what's -- but fundamentally what we're talking about here is, you know, access to these live markets, real good pre-trade transparency, post-trade transparency, and fundamentally an ability for the market and the buy side customers and the liquidity providers to be able to transact, which has been evolving, you know, in the last 12 years we've been in business from a more standardized type of business and fixed income such as U.S. treasuries out to other products and now into the derivative space.

But we think it's that flexibility that is so critical so that you can have the innovation to accomplish what the market needs are so long as it's fitting within the policy objectives that have been laid out by the legislation in the core principles.

MR. VISWANATHAN: Vish Viswanathan from Duke. I guess one of the things that concerns me about this RFQ model, if I'm an end user and I'm going to two different platforms, I literally have to request a quote from both platforms. I can't actually compare prices. There is no way to aggregate as there would be in stock markets.

So the question then is, from an end user perspective, is this the most efficient way or is there a way to kind of induce more cross-market competition. If there are a multiple of these entities that are created, how do you induce them to compete because the whole idea is to have innovation and competition and so how can you do comparison shopping in this context is the big issue.

MR. HARDING: Julian Harding. It strikes me that there is a trenchant change in the air and all different forms of execution that exist now will have to adapt in some form. I think we should be under no illusion about that. And as an interdealer broker, as an interdealer broker myself and as representing the association, we are under no illusion at all that we're going to have to adapt in certain areas to meet the regular fee standards and policy standards that are coming out over the last year. And in the same way, it seems to me that probably an RFQ system, given it's a single requestor, will have to make some adaptations as well.

MR. DE LEON: Bill De Leon, PIMCO. I think it's important to differentiate because as we've seen through the evolution of the stock market where there have been multiple sources of prices and central order books, that both the order books themselves, as well as the end users, have spent an enormous amount of time, energy and their own money to come up with systems to pull and pull that information together so that they can look at multiple sources of information.

It's very analogous to what goes on now in the OTC market, especially in fixed income, where as an executor of a trade, you need to do price discovery talking to multiple dealers to get that information and/or looking at other price sources. Not to show favoritism, but a few of the people here who have talked have some very good SEF-like models already. I've traded on them, as many people in this room probably have, and there are pluses and minuses to them. And they're a combination of RFQ, streaming quotes, central order books. And they provide a lot of pre and post-trade transparency.

What SEFs in our view will not provide is continuous price making because there is no central market maker, per se. And that's something we should focus on. In addition, as we move into the derivative market and you move away less from the widget market, and not to pick on anything in particular, if you take a stock, it's very nice because it is a defined widget.

IBM, for example, is a single stock name. There is one piece of information: it's traded, how many shares trade, or are perceived to have traded at what sets of prices. And as you move away from that and you move to derivative markets, you wind up with a lot more bespoke characteristics. So getting that information and tracking it becomes much more difficult. And that's a plus and a minus. It allows standardization of things to be moved away to customization to meet different product needs for different end users.

It also has the stigma of as you move away from the widget effect to a customized event, the footprint left by those using it becomes much more known. For example, certain people trade certain instruments. It will be known that only certain people do that. If everyone sees that information and it's not aggregated, you're going to know who is playing and if they are a large player or there is a small player, that information is given away.

So, you lose that concept of anonymity, which I think is an important function of the market, because while people have a right to know what is out there and where the fair level of a trade may be prior to a trade, not everyone has the right or ability to know every single trade in every detail because there are things that are not standardized and is a function of market liquidity and need.

So I think that any SEF model or SB SEF model will have to take that into account and allow certain flexibilities because otherwise, you'll wind up with people not wanting to use it and as we've just alluded -- we have some very good statistics here -- there are a lot of things that trade -- that don't trade that actively especially in the standard form.

Ten-year swaps. A lot of players use 10-year swaps. They look at that quote every day. There aren't that many trades that occur every day. And the reality is when a 10-year swap does trade, most end users don't trade the 10-year swap. They will trade something that is around a 10-year swap. They may trade something that's 10 years and a quarter, they may trade something that's 9 years. The coupon will be different, the dates will be different, there are all these unique functions.

So to the extent that you're forcing things to be on an SEF and all that information needs to be given up, you're going to be telling an awful lot of people a lot of customized information about the end user which will hurt them and not help them. In addition, it will make using SEFs harder because to track and display that information will sort of be a player's curse. I'm sorry for taking so much time.

MS. SLAVKIN: Heather Slavkin. I understand the concerns about accommodating a lot of different business models. I'm not sure I agree with the argument he just made, however, because the legislation envisions that the SEFs and the trading requirement will apply to products that have to clear. And the clearing requirement applies to liquid products. Standardized and customized transactions are not going to be required to clear. So I don't think that we should take customization into account when determining what types of information should be disclosed to SEFs or how SEFs should operate.

MR. COOK: Let me sort of ask that -- sort of -- and Bill or Yves, you can pick up on this. Sort of one line of reasoning that I think we're hearing is that it's a diverse market. Lot of different types of products, lot of different type of platforms need to take that into account in order to accommodate the status quo to some extent. One could also argue that the statutes require the agencies to think about a new market, a new paradigm for how swaps are being traded and which would have the effect that some of the existing models might not work with that new paradigm.

And I would be interested in getting, you know, also particularly from the end user perspective, in the first instance, but everyone's perspectives, on how we weigh those concerns. And if the idea is that we really are meant to be moving to a new market structure, how do we get there? Is it a one time leap or is it a transitional exercise?

MR. OLESKY: This is Lee Olesky, Robert. The interesting thing is --

MR. COOK: If --

MR. OLESKY: Oh, I'm sorry.

MR. COOK: If you could Yves go after. Go ahead, but --

MR. OLESKY: I just want to make a quick comment, which is the derivative markets right now are not there yet. If you look at the percentage of the trades electronically on vehicles such as Tradeweb, Bloomberg, any of these other entities, the market is not there yet. It's a small percentage of the market relative to the total size of the market. So in terms of change and structural change here, you would have significant structural change if there was a mandated requirement to take most of these standardized transactions and run them through a SEF because that's not happening today.

So first and foremost, establishing the mandatory nature of this that's in the law and defining what's standard is going to create some significant change in the marketplace. That's how we look at it relative to other cash markets. This is still a market that's evolving towards electronic and it's still only a small percentage of the market.

MR. SEMLITZ: Steve Semlitz from HESS Co. In the energy markets, I think we have just the opposite occurring where everything was OTC many years ago and now an inordinate number of products do trade in a derivative form. The energy market probably has the largest amount of customized types of trades. Many of those trade OTC and then get cleared, but overall, there are tremendous numbers of derivatives trading in forums like ICE, that trade and clear. There is no -- you're not requesting quotes.

And the real issue for everyone is can you attract enough eyeballs and enough people to look at the screens and figure out where there is an opportunity to trade because it's an infinite universe of trades that can occur. The definition of what a trade that has to be on a SEF will be -- that's where the --

(Interruption to video call.)

MR. SEMLITZ: -- because in the energy markets,
there are just millions of types of customizable trades that
occur. And you get quotes by going to a market maker and
saying please spend the time to think about how to quote this
product and then quote it. The question I would have is when
you go to a request for a quote type of system and people
aren't quoting their best customer and their high volume

customer, whatever it is, whether --

(Interruption to video call.)

MR. SEMLITZ: -- for anyone to continuously go through all the requests for quotes that you might need. So where you draw that definition is going to be the key.

MR. DENIZE: I just wanted to underline -- this is Yves Denize -- from the end user perspective, wanting to underline the difficulty in standardization. As you look at the end users in the various industries now, for instance, our life insurer, for instance, has very specific needs and comes to the derivatives market for very specific risk mitigation needs. And it can't be overstated that defining that standardization process in a way that can be freely traded where you won't need a phone call and a discussion about those terms is going to be very difficult.

And that process that will determine what should be traded on a mandatory basis, should not be -- should be an organic process that really reflects the growth in the market and the growth of these trading facilities. And it should be done in an organized manner, a centralized manner, so that we have - are able to settle our expectations as end users when and how the types of derivatives that we are used to being able to access are going to be forced onto a trading system that may change our model as to how we're mitigating risk.

MR. DE LEON: Bill De Leon. Yeah, I think it's important to separate a few things here, which we've sort of not brought up and I know it came up in some of the previous panels. So I apologize for revisiting. The important things in our view is to reduce systemic risk in the system and ensure that people have access to decent price information so that they're transacting approximately where the market is. And the things to achieve that are not necessarily driven by standardization of everything down to the widget level. Clearly, the more widget-like something is, the easier it is to turn it into a central order book.

If you look at futures, which they're a great example, farm contracts, S&P futures, we can talk about many different things. They're very standardized instruments. You know what all the details are. And they lend themselves very easily to being traded on an exchange. Everyone knows exactly what it is. You don't have to stand behind and figure out customized things. They've lent some issues to it, however, because they don't necessarily meet end user hedging abilities, especially FAS-133 and cash flow hedging. And that's something. But you've achieved a widget thing which allows a lot of people to look at a lot of information and trade and transact.

The nice thing about a SEF or the concept of it, in our view, is that it allows multiple participants to access and trade with anonymity. That's the important thing because if you take that away, you're just creating sort of a marketplace for people to sort of share information and try to get things done. The point is, and I know this is on a later panel, a SEF needs to ensure that people who participate in it get the information they want or can provide it to trade. And then when they do a trade, it gets given up and cleared so that it goes through and reduces systemic risk and you're not worried about who you traded with.

Our clients don't want us, necessarily, trading with the guy who is making a market in derivatives sitting in his, you know, basement. That's not what we want, right? The SEF concept would allow clearing and it would take it away. So if the guy in a basement was doing it, he would be doing it via clearing mechanisms. Some would be providing capital and we would reduce risk. So if he wanted to provide the best price, we would be happy. So I think we need to focus on these aspects, and I think maybe that's getting to what you're talking about.

So we need to sort of not lose sight of what we're trying to achieve through the SEF, which is allowing multiple people to come together, provide prices, provide information, allowing more people to transact and not having sort of an oligopolist situation where only dealers provide prices. We're very much in favor of that, but it has to be done in a way realizing that when there are lots of unique things, it's more difficult to get that information, as well as by the nature of unique information, it tells you a lot about who is playing so as you move away from that.

And one other thing which I think is very important and I think we shouldn't lose sight of, and I'll stop taking so much time. And I apologize. Is that there is a huge legacy set of positions that exist and the ultimate goal to reduce systemic risk is to move those positions over to a CCP like framework. How do you handle those positions so that they can be traded in a liquid manner where the end user -- and the important thing to remember -- end user is mom and pop because institutions frequently represent very small investors that just pool their money with a large investment fund -- that this is sort of the view. And you don't want them paying high bid ask or information fees to make that happen.

MR. EADY: So it sounds like the panelists believe that there are some desirable characteristics of the RFQ model that they would like to preserve. One of the things that we're focused on, obviously, is pre-trade price transparency, and we talked about it a little bit here. The question I would have for the panelists is do you believe that there is adequate pre-trade price transparency with the RFQ models that exist today or if not, what would you suggest as improvements to pre-trade price transparency to help us better meet that policy goal.

MR. DuFOUR: Richard DuFour. I can only speak to, you know, what we do today, which is not really a SEF, but the FLEX system I mentioned before, which is targeted at the over the counter market kind of draw from that impact. The last two or three years has -- the volume has increased substantially, I think, because of what's been going on. And I would argue that there is, you know, adequate transparency in that. And the key thing, you know, in responding to a quote is to know the terms of the trade, which you can vary, and, you know, price and size. And I think those elements are all met. And I suspect in some of these other systems, but I won't speak for them.

MR. OLESKY: I guess I would just reflect what I was saying a little bit before, which is the state of the market right now with derivatives trading through what we envision to be SEF like entities, such as some of the entities that are on this panel, is still in its early days. And as a result, you don't have a lot of activity, not nearly the same activity that you have in the other market.

So what should happen here naturally, as more activity moves to these vehicles, you're going to have enhanced transparency in terms of more participants joining in, more prices coming in, more competition because for the first time, this is going to be a mandatory process. And if that market today, and let's just, you know, lump together credit and rates, is less than 5 percent through these kinds of vehicles, if you envision a world where there is 75 percent of the activity going through those vehicles, you're going to have a lot more transparency.

MR. MacDONALD: I would agree with a lot of the points that are being made on the SEF. Ben MacDonald from Bloomberg. I think that the derivatives market is relatively early in its stages. I think we will draw comparisons in the cash market where the RFQ process is very prevalent, as are some of the other things that we're talking about here. And I think that, you know, the important thing from a kind of rulemaking standpoint is really going to be allowing multiple models to exist because I think that's ultimately going to promote liquidity.

I think that the buyers -- the takers and makers of liquidity, will end up, you know, in the place which is the most efficient and suits their needs. And I think if you look -- if you draw the analogy today in the cash base, there are multiple models and people use those models for different reasons. But there is a vast majority of trading that happens over, you know, the RFQ model over the streaming model, you know, as well as other end users as well. And I think the really important thing today is to allow that market to continue to grow. And I think the risk we're just -- we're then posing, one model is that it will achieve the opposite to that.

MR. DOWNES: Andrew Downes, UBS. I would say that if -- even with an RFQ model, if that's encompassed in the SEF definition, should provide more transparency than currently exists because you need a trigger for the discussion and that trigger will be a price around the benchmark tenors or trades. And having that will obviously provide more transparency.

MR. DuFOUR: I would also add that this is really on the issue of the customization, that I believe a great deal of the customization that's done, I would even say, you know, the majority of it, can be done in a standardized form and that one of the challenges for you as regulators is to make sure that customization doesn't become a loophole for avoiding the exposure and clearing it.

MR. HARDING: Julian Harding. Moving slightly away from the RFQ concept and talking a little more of the existing interdealer, the broker venue, the existing structure is a little bit -- is not talked about very much, which is that there is a sort of an outer area of end user participants and there is an inner area of banking or dealing participants and there is a third inner area in which sit the interdealer, the brokers.

In terms of the transparency issue, I think a lot of this will be attended to by the fact that in the new imagined environment, there will be introduced a great deal more different sorts of participants by the mandated areas that Lee just alluded to. First off, the fact that clearable trades now will be mandated through SEFs and DCMs will do something. Secondly, a whole new batch of players determined -- yet to be fully decided upon, but certainly in amongst the legislation, will be forced to go through SEFs as well. Brand new entrants to that marketplace to be -- what I would say the previous marketplace, the one we described as a SEF.

So, that is quite a dramatic change in and of itself and the transparency might even be contended -- the transparency desires may come from primarily a lot of those participants who, in fact, now will be fully participating in those marketplaces, which is rather a large change. I think it's the same theme, but extending the theme that Lee was mentioning.

MR. COOK: I want to make sure we get, you know, all the staff's questions in there.

MR. BRIGAGLIANO: Can I ask the panelists whether they believe there should be a firm quote requirement for swaps and if so, should that depend on a liquidity threshold?

MR. DE LEON: Bill De Leon. I think you've seen the market adapt to that concept already, that people put out quotes on many things in the OTC market, and that's how a lot of people get transparency. And the understanding is that people who put quotes out, understand that there's going to be some minimum size that they will transact on. Sometimes the quote information has that price information as well as a quote size or there is some indication.

We've found that dealers who send us information who don't include size and/or when you go and say I want to trade on one side of your market. And they say, oh, no, that was just an indication; we're not willing to trade. You tend not to get a lot of repeats.

So, I would agree that having a quote without some concept of size and maybe it displayed or maybe there is an understood rule and obviously depending on the product, the size needs to be different, I think that makes sense because people flashing prices on screens not standing behind them I think gives -- lends to manipulation and/or misleading information. And it doesn't help anyone to have that, to say

I'll buy it here at 25. Oh, okay. I'll sell it to you at 25. Oh, no-no. That's only not good for any real size or I take it away. I think that hurts the market in liquidity in any process.

So, I think the concept of a firm size is good because it enforces that when you see this price there, well, it may not be all the size you want to do. At least you know you can do a transaction and it's not getting you to waste your time because otherwise, you're going to give away information to somebody.

MR. DOWNES: Andrew Downes. I think in answer to the second part of your question, I think that definitely does have to be a liquidity requirement for firm quotes if there were to be that requirement at all. Obviously, there is a lot of disparate standardized contracts that trade, and some in very small volumes, and I think it's obviously difficult to maintain prices across, you know, a number of tenors and hundreds of names all at once. That's just not feasible from a market making perspective.

So, I think you need to have a liquidity requirement and obviously, to the extent you were going to require firm prices, that should really just be around the benchmark and then obviously the benchmark price that is shown can be a trigger for a discussion if someone wants something other than the benchmark.

MR. OLESKY: Hi. It's Lee Olesky. One of the beauties of the way the market works right now, and this is following up on the two previous comments, is because it's fully disclosed, you know who is putting out the price. You know who you're asking for the price for. And I think we heard from Bill, if you are putting out prices and you're not standing behind them, you're not going to be asked for prices in the future.

And so we see that all the time. If you're not going to stand behind your prices, you know who it is, and this is the key to the anonymity of the relationship between the user and the liquidity provider, you're not going to go back to them. So, there's a self-enforcing mechanism that works quite well in terms of standing behind your prices. And, you know, we've experienced that in the last 12 years. If you're putting out prices and you're not standing behind them, you're not going to get that inquiry in the future.

MR. SEMLITZ: I want to grab a question because it really goes to futures and derivatives and there is an entire industry that grew up around trading futures and those firms are canceling inordinate amounts of their orders, maybe up to 97 percent of their orders. So, their orders aren't there to provide liquidity and many of their orders aren't there to really execute they're there to paint the market. We've got rules already in place to regulate this. And that's the current state of the market. So the question I have is why are we -- you know, why are we so concerned with request for quote and whether people will be firm on their quotes, but we're not doing anything about the futures markets.

MR. MacDONALD: Ben MacDonald, Bloomberg. Just to kind of follow up on a lot of the comments. I think this goes back to the point of having, you know, different types of SEFs and to draw -- I mean, you know, I think one of the issues here is because the derivatives market is so new in the electronic trading space, I think we all draw comparisons with how we saw the cash space evolve. Natural evolution in the cash space was firm pricing and, you know, you've got to a point now where you can access hundreds of quotes on a system. And the way the liquidity providers differentiate themselves, one of the ways, is by firm quotes and, you know, people stand up to larger sizes from depending on what their appetite is.

So I think, you know, it's one of the reasons why it's very important to allow different models to exist because I think you'll naturally get this evolution, which we've seen in the cash space, across, you know, both the rates and the credit market.

MR. OLESKY: Just to make another point on that is the -- in a sense, anonymity allows for backing away. I mean, I'm not going to be critical of the futures market; that's not my area, but I think when you have anonymity, it's easier to back away. When you don't have anonymity, when it's a privately negotiated structure or deal, you can't back away or you won't do that business in the future.

MR. DE LEON: One of the things, though, to sort of go back to that is as you -- you know, you look at your model, which works very well, people put up a quote and you know which dealer it is. Conversely, when you look at the futures market, this whole concept is that it's anonymous. Whatever goes on, though, what you do know is if someone puts up a price and a size, they may be painting the screens as sort of the example that was laid out, but you do have the ability to do that trade. And there are times when people paint the screens and the market comes out and they don't pull their level quickly enough and they're held to that trade.

And also you tend to know when people paint screens, that is to say, well, if the market is $1 at $2, and they put a level out at $6, but they're willing to sell an awful lot of it, well, they know, and everyone knows, well, they're just painting the screen because it's so far off the market, you're not going to look at it and you know it's someone playing a game. Unfortunately we've not seen that, and that's just gamesmanship and it's -- I'm not a fan of it

or in favor of it, but if that person puts out a large block
instead of at $2, at $2.02 and it's a large block, well, you
might lift them on that offer because you may go, you know
what? That's not painting the screen. That's them asking a
little bit of bid-ask for a large block. So I think you need
to differentiate the two.
            And the market does self-reinforce because people
tend to look at it and go, these guys are constantly showing

blocks off the market and I'm not going to look at it. So I do think that people self-correct for that even though it's anonymous. What I just want to get back to is the concept that if you're going to have a SEF model, the concept -- and it's going to be cleared, the concept is people having access need to be anonymous and be able to do things.

So, I think some of the points that have been made here is clearly there would be less customization over time, which I think is a natural outcome of the market, but we have this huge outstanding book of business that still needs to be traded and managed and eventually possibly cleared to reduce systemic risk to the system, which is the ultimate good. And how do you do that if you force the new model not to incorporate the existing body of positions.

MR. VISWANATHAN: I just want to follow up on this. I guess to me one of the presumptions of the Act is clearing itself will induce innovation. The fact you clear will lead to more standardization over time and hopefully it will mold - instead of just a request for a quote more actual quote-setting behavior, but it might be that the regulators need to set thresholds that if you meet certain volume hurdles, you're a big enough market that you want to prod more quote behavior because posting quotes, I think, makes a big difference to end users.

It goes from a negotiation relationship, which is kind of person to person -- RFQ model each person is getting a separate set of quotes. I'm seeing prices, but I'm not seeing the quotes that somebody else gets. But the posting quote model, it's completely different. I know the quotes that other customers have got for some standardized product. So it changes the nature of the game in essence.

MR. COOK: So you think if an RFQ model had a certain volume, then maybe you would say it needs to transition to a full disclosure model.

MR. VISWANATHAN: Yeah. I would say that that would be part of the regulatory kind of rule-making or decision-making.

MS. ADRIANCE: That actually leads very nicely into my question, which is there have been several people who have talked about RFQ models, the versions that have streaming quotes, you know, whatever you want to call them. From what we've heard before and today, the different versions of these models, you know, have differed. There is many different systems that's been mentioned. In fact, several people are saying we need to have different models.

And I'm really curious, if, you know, if we as regulators, in addition, you know, we say everybody knows the control limit order book. We know how that works. We know that it has certain advantages. What I think is being said is that there are certain instances where a central order book just isn't going to work, like liquidity or whatever has been mentioned.

So, in addition to a central limit order book, several people have mentioned other models. What I'm trying to get more information on is if we could actually -- I realize that a number of you already have models in place. But if we were going to design a new model, if as regulators we were going to say, well, what is the best additional model in addition to a central limit order book that we want to . encourage. Separate from where we are today, where do we want to get to to deal with situations where there is the, you say, the less liquid slots.

What would that model be that would provide in a sense, the regulatory goals of the Dodd-Frank Act, you know, pre-trade price transparency, yet there is, as it has been mentioned, anonymity, you know, that there is this marketplace because many of the RFQ models, people have said, well, they're multiple to multiple because you have multiple

people sending out requests for quotes and you have multiple
people that can respond to that individual person.

Is there something between that RFQ model -- I know
there's been -- streaming quotes have been mentioned. That's
something that can go to a lot of people who can react. But
is there something else that is either out there that you're
aware of, something between central limit order book and

RFQs, that is a beefed up version of an RFQ model or some other model that is either out there or that you can envision being a practical step if we're trying to evolve, you know, certainly as we've mentioned, as certain swaps become more liquid, if there is some and we have some kind of standard that we say, okay, if it reaches a certain liquidity it needs to move up the gradation of, in terms of models, is there something between this RFQ model, and the central limit order book.

One thing that was mentioned was streaming quotes, but that's not something that you can transact or that you can expect to necessarily transact I think. So I'm curious about what is -- what else might be in the middle between RFQs and central limit order book that's either out there or that you can envision being a useful thing to have out there.

MR. SPRECHER: This is Jeff Sprecher from ICE. What exists in the futures market for exactly that need, particularly in the options on futures market, is the requirement that there can be pre-trade conversation, arranging of somewhat customized deals. But when the moment comes to actually cross the trade, it is advertised, for some period of time, to a broad market before it's crossed.

So in other words, if the buyer and the seller have already found each other, one person puts up their bid or their offer, counts to three, and then the other one can cross it. That allows for a price improvement capability inside that bid and offer.

Let me make one other point while we're on that. And one of the issues that we have at ICE, as an operator of futures exchanges, many to many OTC markets, dealer to client OTC markets and inter-dealer OTC markets. So really covering across all trading types. One of the concerns we have is that in both Commissions requirements, to institute the core principles, as well as the aspirations of pre-trade price transparency and some of the other aspirational aspects of the bill, that we not try to go through market type by market type or market by market and somehow give a broad set of exemptions.

It seems like that, however, those core principles are implemented, they ought to be consistent across all models, and then if the Commissions want to allow various trading models to exist, they shouldn't exist because of some

kind of regulatory arbitrage differences between the way the
core principles are implemented.

MR. HARDING: Julian Harding. We seem to have
stuck with, a little bit, the RFQ model, which as I
cautioned before, could -- I think needs to adapt a little to
adhere to the strict definition that was read out at the
beginning. The -- I would offer the inter-dealer broker

over-the-counter market places do offer what you've been suggesting might be a middle road between a central order book and an RFQ.

The over-the-counter markets to date generate liquidity when compared pari passu to any other venue for a similar product area in an overwhelmingly greater manner. And if we agree that liquidity generation or liquidity preservation and improvement is a central tenet of safety and certainly is of the ability to clear trades and therefore create further levels of safety, then the inter-dealer broker model, the over-the-counter existing models can offer a lot of what you want in that we are looking at multiple parties transacting with multiple parties, accepting bids and offers from multiple parties, in a very dynamic environment where each player in that marketplace can be, at any one time, and even simultaneously, a market taker and a market maker.

MR. EADY: So let's expand on that a little bit because my understanding is that the inter-dealer market is a market among dealers and not others. So when we get to the other policy goal of impartial access, are you suggesting that we open the inter-dealer market up to other participants who want to be involved for the benefits that you just described?

MR. HARDING: Yes, and I said in my previous comment, that the new environment clearly envisages, by virtue of mandating certain existing parties to go through the SEF or the DCM and furthermore, mandates extra new parties that previously were not, possibly due to the fact of counterparty credit issues, were not having easy access or any access to those marketplaces. In the new environment, in newly cleared products, the counterparty credit issue is removed and those same newly mandated participants are going to have free access to those same marketplaces. So yes, indeed. The answer is yes.

MR. MacDONALD: I think there is -- this is Ben MacDonald from Bloomberg. I think one of the things that's getting a little bit lost in the debate, perhaps, is that, you know, a large part of the derivatives market is what I'll call semi-standardized and by that, you know, the benchmark is where everybody is going to be basically looking as a reference but the reality is that a lot of the way trading is done on these standardized products is the cash flows and models slightly outside of, you know, the point which is made, you might want to do a 10-year swap with, you know, three months forward, or something like that.

And so, the risk is, it just becomes very, very cumbersome, from a technology perspective, to be able to, you know, if you change the model from an RFQ model, or don't have that in your RFQ model, the RFQ model is actually the most efficient model that we see today because it allows, you know, people to go out with this kind of semi-customized trade and dealers can quote it or the price makers can quote that transaction and come back, come back with a price.

It's just -- I think it becomes very, very complicated, you know, the more kind of -- the more you change that model and the more you get into the kind of semi-standardized space, I think those models become very complicated to maintain. So I'm just trying to kind of understand the thoughts around that.

MR. OLESKY: Yeah. One comment I would like to make is I think what happens here, again, as we're trying to anticipate the effect of these rules on the marketplace, and I'll go back to that point. With the establishment of SEF, as more and more activity goes through SEF, I think you're going to start to see potentially more volume occurring, which will drive business into different types of trading models. And it will be driven, to a large extent, I think by market participants.

If there were thousands of participants, as there are in exchange models, who wanted to participate in a 10-year swap, then I think you would have an order book real quick because I'm pretty sure, you know, all of us would want to open up our markets to an exchange type environment if there are enough participants and enough liquidity to support that kind of model.

And I do think we will see an evolution, and we've seen this evolution in other products where, for example, you have the treasury market, you have other markets. As they've gone electronic, they become more liquid, they pull in more participants, and you have more of an order book type of model occurring, whether it's in IDBs or, you know, through Tradeweb or Bloomberg or wherever. I think you're going to see an evolution in certain products where they will move to, naturally move to different types of trading protocols.

MS. SLAVKIN: I have a concern that the conversation about maintaining the RFQ model is the status quo that you mentioned earlier. And it seems to me that the legislation envisioned, and what we should be trying to aspire to, is something as close to an order book as possible. As soon as we start adding the human element in, you invite the possibility for manipulation.

So, I also think that this can be, you know, made electronic and have as many participants as possible who are interested in participating in the process to have access to it. That should be the goal of this process and to move as much of the market onto that type of model as possible.

MR. COOK: Okay. Thanks. I want to make sure we have time for our other topic we want to get to on this panel, then we can circle back in the end, which is the exception to the mandatory trading requirement. Why don't we start with a line of questioning on that.

MS. ADRIANCE: We've just been talking about what is this -- the model that have -- the different versions of the models that have the pre-trade price transparency, et cetera. We know that there is language in the Dodd-Frank Act that refers to, for instance, block trades. There is a possibility of some other language that might allow other situations, which might not be -- which might be trades done without a pre-trade price transparency. And we're trying to understand what that means.

What -- your views of under the Dodd-Frank, is there something in addition to block trades that should have -- that can be a method that trades can be executed without requiring pre-trade price transparency and, you know, what might those methods be and as well as under what circumstances would it be appropriate to allow, you know, as regulators we're supposed to be sorting out well, when and under which circumstances are block trades allowed? Can they be accepted as just block trades? Is it an adjunct to these other markets that have the, as it was discussed, central limit order books, RFQs or these other models in between. Where does this fit in, these exceptions to this rule of pre-trade price transparency.

MR. DE LEON: I would like to -- sorry. You know, block trading and post-trade transparency is something I think that offers very different information than pre-trade. And there are different social aspects to it, in terms of information, information flow and who benefits from that information. And I think it's important to separate those out.

What I think, and I think that most people agree on, pre-trade transparency is incredibly important to make sure that as many people have access to (a) get the best price information out there, (b) be allowed to trade and offer liquidity, and (c) when they transact, get that best price. That's a common good, I think, because you want people to trade and get the best levels and not be forced to pay a substantially higher bid ask price.

What happens post-trade, however, is what information gets given out and how it is given out and who gets it. Post-trade is now a transaction barring a central limit order book where there is a trade done where that size then gets done. But what information gets given out afterwards and at what rate.

You very quickly run into a situation where if you don't have a central limit order book where it's clear that there were willing buyers and sellers to offset each other, and that was the clearing price, where the market starts to move. If I want to buy a lot of something and the central order limit book isn't deep enough, I'll move the price up.

If I want to buy something, the central limit order book is big enough, actually it can trade through me.

When you do something, a block trade, which is now off central order and it's occurred, what information do you give out and when and why. I think it's really important because you create the situation of the buyer's curse and the, you know, or the winner's curse. And you need to prevent that because that's not a social good. Because that means that the two people transacting are taking extra risk on both sides and everyone else who doesn't take part in that transaction gets a lot of free information that they can then use against both people transacting.

For example, if I want to buy a lot of something and I call someone and I ask, well, where can I buy it. Well, if the typical order size is one car and I want to buy five thousand cars, well, the price for that is going to be very different. You have to produce 5,000 cars, where are they available. There is a uniqueness factor for it. And if the person who sells me them doesn't have the inventory and needs to work out of it, everyone is going to know he is short them so they can run the price up on that person.

So there is a real disincentive for that information to get out. What is important is that that trade did occur, people should know a large trade occurred, but how large and exactly what details should be protected because otherwise, everyone else in the room, or everyone else in the market, will have an unfair advantage. So the person who sold the car is going to want to protect themselves and charge a higher price. The person who buys them will pay a higher price. And conversely if I wanted to buy more cars after that first block, it's going to be more difficult. So I think when we talk about block trading, we have to understand the social implications and who is benefitting, versus who is getting hurt and what is the information.

MR. COOK: I would like to steer us away, maybe -- thanks for those comments -- from yesterday's topic of transparency and reporting and maybe back a little bit to the mandatory clearing requirement. Because what the statute says is that if a swap is subject to the clearing requirement, then it must be traded on an exchange or SEF unless no SEF or exchange makes the swap available for trading.

So, I think what would be helpful is to get your thoughts on how we should be interpreting the words "available for trading" when we're defining the scope of this exception from the mandatory trading requirement.

MR. HARDING: Julian Harding. Robert, this might point to the big differences between an exchange or DCM situation and a SEF situation. It is -- whilst it is possible to conceive that a newly clearable swap may be

turned down because of structural concerns of some kind or
something else within an exchange environment, as being able
to be listed for whatever reason, it is similarly almost
inconceivable that a SEF that one might imagine with a
different sort of structure, would ever turn down the chance
to operate a market to trade a newly cleared swap.
So it doesn't point to the differences. And it's a
common thread in the discussions over many, many months now
that the word "listing" often comes up in terms of SEFs as
well and if SEFs reflect the marketplaces that I believe they
do, the listing concept is not correct and, in fact, the
SEF will quickly and effectively create a marketplace or
operate a marketplace for that newly created swap. So the
exception, to me, never made that much sense.
MR. COOK: So you would interpret it very narrowly
and so that if it's available to be traded, then the
exception would not be -- would not apply.
MR. HARDING: Yes. For the SEF? Yes.
MR. COOK: Yeah. Okay.

MR. DuFOUR: Richard DuFour. I think the real key isn't going to be at the SEF level, but at the clearing level, that if a clearing -- there is a clearing entity out there that believes they can clear the contract with whatever the specifications are, then a SEF will be happy to act as the, you know, the place to match buyer and seller.

MR. SPRECHER: This is Jeff Sprecher from ICE. Just to follow up on that comment. As probably one of the largest, if not the largest, operator of the OTC clearinghouses, the reason that we've become successful in doing that is that we've made arrangements with the industry to give us price transparency because the remedy in a clearinghouse on a default is to liquidate the position. And so by default, we need to know at all times where the market price is, which means we need price transparency. So clearing will follow markets where there is price transparency. Not the opposite.

And also, let me just expand my comments to say, again, as an operator of futures exchanges, we recognize there are contracts that are large size that are parts of a tailored risk profiles and the like that are arranged off exchange and are given to us as blocks. We try to maintain that at a reasonable amount of quantity, usually in our futures exchanges, it's under 10 percent of our volume, and we try to influence that by the pricing that we charge to accept blocks, the rules that we put in place to force advertising of trades, and the like.

In ICE's OTC energy markets, which are probably the most liquid two-way bid offer, OTC markets that exist today, 97 percent of all the trades that go across our platform are cleared and about 15 percent of the volume that comes into our OTC market or 15 percent of the number of trades that come in are done away. Those are typically, again, large size, customized deals, and so on and so forth. So I think that the market can develop around a price transparent market and still accommodate some customization for both clearing and trading.

MR. DOWNES: Andrew Downes. With respect to the available to trade, meaning I think that has to have, implicit in it the level of liquidity that's necessary for trading actually to occur; i.e., that someone can come in and there is trading available. I don't think it's a matter of build it and it's mandatory to come. I think it's more build it. They may come. Then if they come, it should be mandatory to come. That's the way I would understand the legislation.

And I think, you know, if you're looking at liquidity, which is back to the sort of plurality of models to be encompassed in the SEF definition, as I said and people have said earlier, there will be a large range of liquidity. So I think you need to think about, in each case, what is available to trade based on, you know, the frequency of trading of the instrument.

You know, in some cases, if there's only X amount of, say, 10 trades a day, that's not really going to lend itself to a central order book because there just won't be bids and offers seeking each other in order to clear. So I would say liquidity is absolutely key.

MR. MacDONALD: I think -- Ben MacDonald from Bloomberg. One of the -- just thinking about the debate a little bit, one of the models which does exist today is the single dealer franchises that we spoke about which allow people to look in multiple offerings simultaneously. The beauty of that model is it actually allows the market to start becoming more electronic and people to post new products out there. And I think, you know, just kind of I guess thinking out loud, the question is whether, you know, that -- if you have that kind of forum, what happens, you eventually reach a critical mass in terms of liquidity which then allows you to kind of, you know, hit that point.

So, I think what you're encouraging, by having that kind of model, is people to post liquidity and it gives you a mechanism to understand at what point those products actually do become liquid and then should, you know, I make a decision as to whether I should -- whether you belong, you know, in a clearing house.

MR. DENIZE: Again, just a note. This is Yves Denize. A note to encourage a process in place that provides us with some subtle expectations as to how that would transition into a mandatory trading environment. You know, simply having a SEF raise its hand and say I'm prepared to list or prepared to provide a trading venue may not be the right process to have a trade go into mandatory trading. And I think there was some discussion about that over the course of the legislation when we talked about mandatory clearing and how the agencies would be involved and having something be designated for mandatory clearing. A similar process would be at least logical here when you talk about mandatory trading and whether you're looking at liquidity volumes, et cetera, would be welcome.

MR. MacDONALD: I think -- actually which raises a very, very good point. I think one of the things which, you know, which we have to think about, and I know this is part of the second discussion is, you know, the mechanisms by which, you know, you can ensure that all of the SEFs kind of, you know, have the same rules and there is clear understanding as to, you know, what belongs in which forum, which, you know, does raise the question as to, you know, to what extent should there be some form of central utility or something like that which is responsible for some of these activities around defining what's available and, you know, where the products should be going.

MS. SLAVKIN: I think this language should be read relatively narrowly and that the requirement should flow from the clearing requirement. I think what we're seeing here is a preference that was reflected throughout the Dodd-Frank Act on the part of Congress to avoid mandating private market actors to do pretty much anything, but allow the regulators to make the determinations as necessary. And so I think it would be a mistake to put too much emphasis on this language.

MR. VISWANATHAN: I would also kind of say you probably want a narrow interpretation simply because it could be that, you know, the 10 year T-bond is traded and I'm customizing the 9 1/2 year, the 9 1/2 year may not be traded, but for all practical purposes, you know, I'm pricing it off something that's out there.

So if you're going to make exemptions, you're kind of worried that if you make too many exemptions, people will use the exemptions to -- the 9 1/2 year's exempt and maybe I don't want to disclose. I simply trade the 9 1/2 year instead of the 10 year. So you have to worry a little about in the rule-making process, you start inducing regulatory arbitrage. So my view is that exceptions should be narrow and the rules should be very clear on when transitions occur.

MR. DOWNES: Andrew Downes. I would just say in terms of the requirement to clear compared to the, you know, the requirement to SEF trade, I think when you look at available to trade and take into account liquidity, the liquidity measure or standard is different from that which I would say is relevant for clearing. If you're looking at clearing, what you want is enough price transparency in order to have safety for the clearer to be able to calculate the exposures and get the margins.

And you can get that with respect to trades, which actually aren't trading on a daily basis in the market because people clearing members will have those trades on their books and they will be marking them on a daily basis. And the risk that you take where people aren't seeing those markets is mitigated to the extent that you can require additional margin and additional safety factors.

If you distinguish that from liquidity in the context of trading, it may be that people have trades on their books, as I mentioned, for clearing, but there's no trading going on and no bids and offers to find each other on a daily basis. So I think you need to look at liquidity in different ways for each of the two exercises, clearing and execution.

MR. MELARA: If I could follow up on liquidity measures, we heard frequency of trading referenced. Could the panel expand, to the extent they can, as to what other factors we should be looking at when considering this particular issue.

MR. DOWNES: I would say other factors that would be relevant, aside from frequency of trading, is the amount of market makers or people that are involved in the market. I think if you've got, you know, only a couple of people that are making markets, that's clearly less of the market than if you've got, you know, 16 market makers all participating on a daily basis. So I think that's another key aspect.

I think you also need in different, depending on the product, you need to look across the curves, sort of tenor points and find out, you know, what proportion of the contract is trading at which points because there will be some names that we would regard as relatively liquid, but they'll only be liquid, say, at one point, as opposed to the other points. So I think those are some of the key things that people need to consider.

MR. OLESKY: I would agree, Andrew. I think in addition to the velocity of trading and the frequency of trading, it would really be the breadth of the market, is critical component here, how many participants are there willing to take on that risk. If you're talking about a principal market, it's almost as important as the velocity and the frequency with which things trade because that really does establish. If you only have two folks making those markets, I would say that's a little bit less liquid instrument.

MR. DuFOUR: I think there is -- Richard DuFour. I think there is a couple of other measures you can also look at. Some of it would just be in a -- well, if you had something that was traded in an order book, you know, it's kind of the depth of the book; if it's a request for quotes, you would look at, you know, how many people had responded and the sizes for the responses. And you also can look at the open interest in the particular series or contract that's been created. Typically greater open interest will indicate, you know, greater liquidity.

MR. HARDING: Julian Harding. I think also following from Andrew's point that certainly the number of participants is a crucial measure. But broadly, there are -- there is a -- there are two forms of liquidity, retail liquidity which could be characterized by an equity marketplace where there are 100 pieces of 100 lots on each side of the bid offer spread. And then there is institutional liquidity where that same bid offer spread may be populated by one market maker in an average size. But right behind that, maybe one tick away on both sides, there is a vast amount of size that can be transacted. And that sort of liquidity, I think, is a very important element to preserve in any debates we have about liquidity.

MR. OLESKY: Arguably, a definition of liquidity is can you do -- how much size can you do relative to moving the market is one definition. If you can do a lot of size, there's a lot of liquidity. If you can't do a lot of size, there is not so much liquidity.

MR. VISWANATHAN: I would agree with that. I think in the end, it has to come with measuring your price impact.

If every trade moves prices a lot, then you have to say the market -- you would have to measure, somehow, the size and the depth of the market of something.

MR. COOK: If a product goes through the process of being qualified to clear, so you have a clearing agency who thinks there's enough price transparency or modeling capability around that product field to accept it, how likely is it that product wouldn't be available in -- for trading in some facility that would qualify as a SEF? I mean, how big an issue do you think this will be as a real world manner once it makes it through the -- over the threshold of being clearable then why wouldn't it normally be tradeable in a liquid market?

MR. MacDONALD: I think it's unlikely that anything which is accepted by the clearinghouse wouldn't be immediately available on the SEF. I think that, you know, especially if you've got multiple SEFs, there will be a, you know, competitive aspect to being first to market with anything which is made available on the clearinghouse.

MR. DE LEON: I'm not sure that you'll see that because as we've seen, there are multiple security -- multiple things that trade or are cleared or are clearing eligible and especially if you look at the CDS market where there is the big bang and small bang, so there's been a lot of standardization already, but a lot of smaller names don't trade that actively.

So, I would say that it's in the public good to have these CDS cleared and margined and marked on a daily basis, but it's not necessarily clear that they will be trading very frequently. They trade once or twice a week as is. So -- and that's only by a limited number of players and dealers. So given that, I don't foresee a pickup in that dramatically as it is SEF eligible. It will obviously help over time, but there are things that are not that liquidly traded as is. So just by definition, it doesn't mean there will now be a full deep market in it.

MS. ADRIANCE: In terms of that, you mentioned that, you know, just because it's determined to be clearable, it does not necessarily mean that it will trade frequently. The question that we began on was what does "makes available for trading" mean. If it's determined clearable, but it's not trading frequently, is that available for trading because it's being offered by some SEFs and so therefore there is mandatory trading or are you suggesting that there is -- it's not being really made available. I'm not sure really what you're saying.

MR. DE LEON: I just --

MR. DOWNES: I would say if you look at what's clearing, you know, there's obviously -- say you look at the less frequently traded single names, which should be the constituents of the investment grade index, I think on average across all of the constituent names, they trade four times a day. That is not very frequent. So, what I would say is whilst all those names or most of those names will clear and many of them already clear, it would be unlikely, at least for some subset, that they may trade in a SEF depending on the model for the SEF.

So if one were to prescribe that a SEF should be a central order book, I don't think those names would trade on a central order book because there's not enough bids and offers seeking each other. But to the extent that the SEF definition is wider and can encompass more models, then there's more likelihood that some names can be picked up and traded in a different model.

MR. OLESKY: I wanted to go back to your question, Robert and I think yours as well Riva. One of the things, and Ben made this point, I think if it's clearable, a SEF is going to want to have it on their system. What might stop that from happening is if there is not equal access to that central counterparty and clearing so that it's not economic for that SEF to actually be able to do that business. So this gets back to what might stop an organization from actually making something available. Well, if we can't be competitive in the marketplace, vis-a-vis the customer base, that would be a hindrance.

MR. MacDONALD: I think in a funny way --

MR. SEMLITZ: I'm sorry. Go ahead.

MR. MacDONALD: I was going to say I think it also goes back -- I think there is two issues, there is availability and liquidity, which is ultimately going to drive what's on the screen. I think it does kind of go a little bit back to the RFQ model as well because the relevance of that model is that it allows you to trade illiquid products by sending out a quote rather than actually only being able to trade if that product is available on the screen. So, I think that remains a very important part especially as this market continues to grow.

MR. SEMLITZ: You know, it's one thing to say something is available to be traded on a screen, but it's not trading, and if the purpose -- unless you want to exclude end users or people who need semi-customizable products from trading and executing what they need, if you don't differentiate between clearing and available to be traded, you're going to end up constraining trade by not permitting people to execute trades because there are no quotes on a particular SEF. So you're going to have to separate the two.

MR. DuFOUR: What I would visualize happening is you would have the relationship between a SEF and a clearing entity and this concept of a product being listed I think isn't quite the right way to think about it, but rather, and I'm thinking of a request for quote model, I would come in and request for a quote for a product, you know, specifications, and the listing, if you will, would be created as a function of the trade as long as it was within some parameters that had previously been agreed upon with the clearing corporation and we can clear the following things.

You can vary the following, you know, aspects of the contract, then the product would become listed or available because a trade took place and now there would be open interest carried in that particular product and, you know, someone else could come in and request quotes for order.

MR. HARDING: Julian Harding. Just picking up on what Lee was just saying, which needs emphasis, I think, again. It is in the statute that there is full and open and non-discriminatory access from a competing SEF to a DCO and it's important, and it's an important proviso. I think it's important to preserve the ability of competing SEFs to have this non-discriminatory access, which has to be complete.

There can't be subtle or nuanced or discreet ways to discriminate against the access that SEF has.

This point is well taken that there is -- one could possibly imagine a situation where a SEF's desire and ability to organize trading markets in that cleared product, may be in some ways stifled or stultified by a disadvantageous access to that DCO.

MR. SPRECHER: This is Jeff Sprecher from ICE. I just want to make the point again, that again as the operator of a leading CDS clearinghouse, one of the most complicated derivatives, we can't clear a product unless there is a liquid market. And not only does there have to be a liquid market, we need pre-trade price transparency, which means it will be very difficult for market operators like us to clear contracts that simply exist through a request for quote, for example.

The reason I say that is that if a market is an illiquid market and let's say it's 20 bid at 50, which means there is somebody willing to buy at 20 and sell at 50, if somebody trades and does a trade at 50 and we receive it at the clearinghouse, we can't mark our positions to market at 50. If we have to sell, we're going to have to sell at 20.

So, we need to know the bid-offer spread and we need -- and then in other words, we need the pre-trade price transparency in order to properly mark to market unless we want to margin somebody at a hundred percent, which is the only other -- in other words, everybody prepays for all their business, which I think probably is self-defeating in the marketplace.

As Julian mentioned, the single name CDS market is relatively illiquid as it has existed; however, the reason that we're able to clear that, is we run a separate market with market participants where we run a daily auction to give us pre-trade and post-trade price transparency. And it's only because we have found market participants willing to accept that daily risk and with products that can trade on a daily basis that we're able to clear the portfolio that we clear right now.

MR. SCHOTT: I would like to follow up on that and also bring it back to a question that I think Tom has asked some time ago emphasizing that pre-trade price transparency was one of the goals we were trying to achieve here. When the different answers that came across this question talked about different potential SEF models, but I'm not sure we squarely addressed pre-trade price transparency. We talked about central limit order books and RFQs and so forth.

Is there any reason why, regardless of the model or

models that the Commissions may adopt, why the models could
not include pre-trade transparency as part of how the
SEF operates, so that even if it's an RFQ, you can see all
responses, all participants can see the responses to the
quotes.

MR. DE LEON: I think, and I'll let some of my
other colleagues who actually run sort of flex type models is
that when you do put an RFQ out to these things, when it
comes back, it's sort of public information and everyone has

access to see that information. Whether or not you can trade on it is a function of whether or not you're a member or you're clearing through a member to that exchange. And that's a different discussion. But assuming one of those two things is the case, you would see that RFQ and you could then go back and either transact on it or counter back with another level. Please correct me if I missed something.

MR. DuFOUR: That's correct.

MR. OLESKY: I would just say a slight variation. I think one of the RFQ models that we run has actually -- does not have a feature where the whole market sees the inquiry that's coming in from a buy side customer. And the reason for that is to protect that buy side customer from -- and give the confidence to those providing liquidity that they can actually do the transaction before it becomes public, and potentially, that information could be used against each of those market participants. That's kind of how the voice market has functioned for years.

And the risks there, in terms of the tradeoffs, are transparency, immediate transparency for the whole world versus the liquidity and price formation. And if you make it immediately obvious to the whole world that someone wants to do a trade for a billion five-year U.S. treasuries, it's going to be very hard for any liquidity provider to step up and say I'm going to provide you with that liquidity because they're going to be concerned about how they're going to hedge that risk and get out of that risk.

And in a principal market like for example just to use the U.S. treasury market, in the U.S. treasury market, it would be very difficult for primary dealers to extend the kind of liquidity they do instantaneously over TradeWeb and other platforms if they didn't have that protected section when the RFQ is going on. And I think what would be the result is if you open that up so that everyone can see it, you're going to have less willing participants in terms of opening up there and taking on that risk that they're providing to a customer when they're making a market, for example, in the U.S. treasury market.

MS. ADRIANCE: And just to follow up on that, what you've just mentioned was, in a sense, a large block trade that another party may not want to take on the risk of a large block if it's a fully transparent marketplace. But what you've just described is a large block, which is clearly mentioned in the Act, under Dodd-Frank. And in that sense, there is, like for instance, to use the model that we have in the futures world, you can have a centralized marketplace and you can still have exceptions to the rule; for instance for blocks or U fees or whatever.

I guess part of our question here is, is there something -- while there may be situations that are appropriate that there is a block trade with a large notional amount, or whatever, what should be the rule, the basic marketplace, what variations of models. I think Sebastian was asking if the variations of models that are appropriate for the overall marketplace, can all those different flavors of models somehow offer pre-trade price transparency as separate from those situations, those -- the exceptions to the rule, the block trades, that wouldn't offer that.

So if we can get any thoughts as to back to, in a sense, the basic rule, what is this -- the usual model, whether it's central limit order book, RFQ's, streaming quotes, these other versions that we've been talking about, can all of those be -- either have now or be adapted to provide pre-trade price transparency for that basic marketplace. And we'll view that as the -- as not the exceptions, but the basic model.

MR. DE LEON: I think you're sort of alluding to something we already see in the market now, which is the concept of people do pre-trade transparency either because

things are electronically available or they pick up the phone
and call and ask five people where do you see the following
or show me a two-way on the following to get information
back. And then once they've done that, when they want to do
a block trade, they'll pick one or maybe two people and then
show it to them on the block size because as -- not to delve

into the other thing, I apologize for that earlier, but when you do do a block trade, obviously you want to be careful about what information you show and how.

So, to the extent that you can do an upstairs block trade, but you've gone through some of the other methods to get pre-trade information, either through RFQs, looking at central order book, et cetera, streaming levels, you have an idea of where to trade and what to trade and then you can do your block trade.

And another thing to sort of incorporate, depending on how these SEFs work, there are some issues, in terms of going to the treasury model, just to dwell on it -- there are compliance and other legal issues because some accounts can't trade with certain people. And it's not a credit quality thing, it's sort of a structural thing. So, there are certain rules, and especially in Tradeweb, where you may not choose to show prices to a specific set of dealers because you're legally not allowed to trade with them due to compliance or legal or client guidelines. So that's sort of just an adjunct.

But I do think that there are plenty of ways to do pre-trade transparency that would work in the sort of SEF model and then post that, you would then do either an RFQ or you would do an upstairs block trade where you don't necessarily show out to the universe what you want to do and advertise it up-front.

MR. COOK: Thanks. So we're coming to the end of our time. I just want to give anyone that wants to get in on this question a final opportunity to do so, keeping comments very brief. And let me ask Steve, do you have anything you want to add before we wrap up?

MR. SEMLITZ: No, nothing here.

MR. COOK: Okay. Thanks. Anyone else?

MR. OLESKY: I just wanted to reiterate a point I made earlier, which is I think as we -- this is such a big change. If you move derivatives markets into a SEF environment, which is largely electronic, I think one of the outcomes is you're going to have more participation, you're going to have more prices coming in, and you're going to have more pre-trade price transparency. And it's hard to talk about each of these bits of the legislation in piecemeal because I think they are all interrelated. The block rules are tied to the RFQ, which is tied to liquidity issues, which is tied to pre-trade price transparency. They all kind of need to be viewed, I think, holistically.

MR. HARDING: Julian Harding. I would just like to almost endorse what Lee has said before, that the new SEF environment should be required of it a level of transparency that does not hamper liquidity. That for me should be the statement we should make, that liquidity maintenance or preservation is of paramount importance and we should offer -- we should construct marketplaces that insist upon the level of transparency -- the highest level of transparency that does not hamper liquidity.

MR. DuFOUR: Richard DuFour. I would add to -- I would agree with both of them, and I would add to that the importance of -- it came up earlier, the issue of a firm quote, that if I'm going to be able to trade anonymously, in these systems and I put in a quote, I have to be held to it, you know, for a period of time.

MR. COOK: Very good. Well, thank you very much for your participation on this panel. It's been very helpful and we appreciate your time and your contributions. We will be taking a 15 minute break and we'll reconvene at 11:00 for our second panel. Thank you.

(A brief recess was taken.)

MR. COOK: Well, welcome back to our second panel of the day on SEFs. This panel will focus on the compliance with core principles for SEFs. There are four key subtopics that we would hope to touch on, one is block trades, the second is surveillance, investigation and enforcement of SEF rules, the third is cross-market issues, and the fourth is the obligation of SEFs to provide impartial access.

So the format for the panel will be the same as the last, but why don't we again start by asking if folks could please kind of go down the line and say your name and your affiliation please.

MR. VISWANATHAN: Vish Viswanathan, Duke University.

MR. YELVINGTON: Brian Yelvington, Knight Capital Group.

MR. WEISBERG: Philip Weisberg, FXall.

MR. McVEY: Rick McVey, Market Axess.

MR. KNIGHT: Ed Knight, NASDAQ.

MR. DURKIN: Bryan Durkin, COO, CME Group.

MR. DIPLAS: Athanassios Diplas, Deutsche Bank.

MR. DENIZE: Yves Denize, TIAA-CREF.

MR. DE LEON: Bill De Leon, PIMCO.

MR. HARDING: Julian Harding, Tradition, representing the Wholesale Market Brokers' Association.

MR. COOK: And we may be joined by Michael Masters momentarily.

So again, the format will be the same. We'll start with the staff asking questions and anyone is free to jump in, and we'll ask again that you'll just bear in mind the number of panelists, the interest in the topics and the short time that we have to get through this material. So with that, let's start with the first question.

MR. MELARA: Thank you. The first topic is block trades. And as Director Cook indicated, this regards compliance with core principles. So, with respect to the core principles, Section 733 of Dodd-Frank, core principle 2 reads that, it says that, "A swap execution facility shall establish rules governing the operation of the facility, including rules specifying trading procedures to be used in entering and executing orders traded or posted on the facility, including block trades."

Now the first panel spoke at length and on various -- in answers to various questions about block trades. So I would like to get a sense from this new panel as to your views regarding block trades and how they impact your various businesses or your perspectives, the perspectives that you represent here today.

MR. McVEY: Rick McVey with Market Axess. Happy to jump in and start there. We run an electronic trading network primarily active in institutional credit markets today. We primarily utilize an RFQ protocol, although there are a variety of different trading protocols available on the system, and we compete with many entities that have alternative models.

With respect to block trades, what we have found in our 10 year history is that the larger the trade size becomes, the more likely it is that both the buyer and seller have interest in bilateral transactions or in narrowing the audience for an RFQ or an auction process. In our opinion, those trades can take place electronically in an RFQ model through anything from a bilateral transaction to an inquiry they might want to share only with two or three key counterparties at a time.

So in our opinion, block trades can be accommodated electronically and meet the market objectives of sourcing liquidity without exposing an excess amount of market risk that may lead to front running in the marketplace. We also are fans of the compromises that have been made around price reporting for block trades with TRACE, wherein corporate bonds, there are size thresholds above which a trade is reported as only having taken place above that size threshold.

So for instance, for high grade corporate bonds, the transaction is reported as 5 million plus irrespective of the block trading size. In high yield, which is an even less liquid market, TRACE reports at 1 million plus. I think those are sensible compromises that have been made between the regulators and the industry that could be applied successfully in the OTC derivative space.

MR. MELARA: Thank you. Anyone else?

MR. DE LEON: Yeah, hi. Bill De Leon. We tend to agree with that view, that it is incredibly important that while the public has information to be achieved that you want the trade to occur on a SEF, it is important that you bifurcate sort of what information goes out there. Because as the trade size increases or it becomes customized, it tends to be more bilateral in nature and you want to limit what information is given out.

And we think the TRACE-style compromise of treating it as above a certain amount accomplishes that. It lets people know a block trade occurred. It doesn't tell them exactly how much, which insulates the players, and it allows the bilateral conversation to occur in a way such that both the buyer and the seller are not giving away too much information, which leads to the free rider problem and sort of the loser's curse. So, I do echo those points and I think they were said more eloquently than I just did there.

MR. DURKIN: Bryan Durkin from the CME Group. Clearly, as part of our model, block trades has a relevance and has a place in the markets and the determination of what's appropriate, in the context of thresholds, one needs to take into consideration liquidity of the product and the platform in which the product is available.

And then, you know, lastly, you know, I think in considering thresholds, one has to consider equivalent products or equivalent markets. And so if there is an equivalent product or market to benchmark off of, those thresholds need to be taken into consideration so as not to take away from the transparency or the liquidity of a centralized market in which block thresholds have been established for some period of time.

MR. DIPLAS: Hi. Athanassios Diplas. I would agree with some of the comments that Bill De Leon over here made. One of the primary objectives or policy objectives obviously has been to ensure that the clients get to transact their desired size in the best possible price. And transparency obviously is one of the means in achieving that goal, but obviously there is a limit to how far we can take that when the transaction size gets large. And that is why I think it is these combination of places you have a lot of transparency for the smaller type transactions combined with the ability to share the protected transacting parties for larger size transactions is a very smart way to go about it.

As people have said before, we have seen examples of how TRACE can set thresholds. Also we have seen now in the current legislation and proposals how they have also set thresholds that take into account the liquidity aspects of the underlying product. In doing that analysis, obviously, we need to -- I think we need to base it on facts, rather than obviously our own beliefs, and all of us come from different angles, so the beliefs are going to be multiple. And in that respect, you know, I urge you to look, obviously, at the data in the underlying markets.

What we have done, as part of market participants, the different dealers along with the large buy side clients, as part of the commitments to the international regulators, we have done a study on transparency and we have delivered now a three month slice of data for credit rates and equities, along with credit rates quotes that are associated with those instruments, and that is, I think, an extremely valuable piece of information that's going to allow the supervisors to make those determinations in terms of what constitutes a large market size moving transaction, based on actual data. What you will see there, obviously, is that the market, the OTC market, is much more diverse than something like a futures market, which tends to focus on very high concentrated widgets.

The breadth of the market is managed here and I think it is so for a reason in that it tries to accommodate client needs. And you will see that basically a lot of transactions happen in the benchmarks and those would be then accommodated very easily in the SEF, in the standard

SEF example, but some of the others that are either smaller, still clearable, because they have been admitted to a clearinghouse because either they were older or they have naturally aged, but they don't naturally trade, those need to be subject to the block trading requirement.

MR. WEISBERG: Phil Weisberg from FXall. When we were originally starting our electronic market, we had a lot of discussions with market participants about how we would have to set it up to enable them to do most, if not all, of their trading on our platform and what was important to the end users, that we have transacting, the market participants that are very diverse, was choices. So the ability to transfer the whole risk in a block in one immediate activity or the ability, if it was available, to take more execution risk and break that, you know, trade up over time.

So, they initially asked us, 'can you make sure that your trade protocol has the ability to let a market maker know if I'm asking just them or I'm asking everybody,' because they felt it would impact the price that they would, you know, receive. So, we just would encourage the regulators to draft the regulations in a way that would maximize the amount of trades that could occur on a SEF, allow blocks to happen on a SEF if possible and with respect to the reporting of block trade information, we would agree with Mr. McVey's comments that TRACE-like distribution mechanisms, where people were informed of trades and slightly larger trades have a little bit of a delay and are reported as large trades as opposed to the exact size would be the best compromise to achieve the objectives.

MR. DENIZE: Just a quick note -- Yves Denize -- because of our discussion in the last panel about how different types of transactions will have vastly different liquidities, one size limit probably won't fit all. So, I think the example used was 5 million plus, for instance, but clearly as you look at different types of trades, there will be different types of limits applicable for the block trade.

MR. MELARA: If I may follow up along the same line of questioning as the liquidity measures question in the last panel, if there are these factors that you would like to share with respect to looking at block trades, depending on the asset class and/or the market that trades them, I think that would be useful.

MR. DE LEON: I think it's very important to, as Yves pointed out and was initially brought up, different asset classes and products will have different thresholds for what's considered a block trade. So, if you take the generic interest rate market or treasury market, clearly trading a hundred million dollars of long bonds is a very different trade than trading a hundred million dollars of two year treasury notes. The duration and market impact there is very different between those two, even though they're both about the same notional and the same market value. And I'm just using that as an example. I'm not giving guidance on where I think the threshold should be.

So, I think as you go through the market, you need to take into account not only the size of the trade, but the type of market and the market risk that's associated with it, so as well as what are the market conditions at the time. So, for example, doing a hundred million dollar trade in U.S. long government bonds at 10 o'clock eastern time is a very different liquidity stress, and I would say it's relatively low, than if I were to try to do that in Asia time or if I were to try to do that after an economic event occurred, you know, non-farm payroll comes out at 8:30 New York time, but try to do a large trade at 8:31, what's considered a block trade would be different.

So, I think you need to scale market conditions, as well as products, into that factor, so to get a better feeling because it's definitively not a one-stop fits all type approach in terms of what a block trade is.

MS. ADRIANCE: It sounds like what you're suggesting is that rather than a number be determined to be an appropriate threshold, that you're talking about some process or some algorithm or some calculation through which we, or

somebody, should be going through to determine what's the
appropriate size. Is that correct?

MR. DE LEON: Yes, that's what I was implying. Some concept of risk is best -- and I apologize for being technical, but the risk associated with something in terms of -- I think this came out in one of the earlier panels. What is the liquidity cost of doing a large trade might be your standard. So, for something that, you know, a

$5 million trade has the ability to move the market X amount where in another market, you can do a $500 million trade without moving the market -- with moving the market the same amount. That would get you a similar sort of concept there where liquidity and price discovery equate what a block is.

MR. DIPLAS: I think to get it started along those lines, I mean, you can see right now in the market if you look at the pre-trade quotes that are available -- and there is a big database of those that we have accumulated -- you can see, for example, what the market participants and dealers in particular are willing to quote as a standard transaction. So, you're looking at an on-the-run index someone is willing to quote, you know, 200 million two ways and are sending -- blasting that to everyone. Clearly that someone doesn't think that as a market moving transaction are willing to send that out to everyone. And that would not constitute the block.

I think if you go three times that amount, it definitely -- it will have a market moving impact. So, to the extent that you have that space to get all those numbers out, the same thing for single names, a low beta name, meaning a name that doesn't move that much, is often quoted, you know, at 20 million two ways, but the high beta name is quoted at 10 million this way. You go to high yield, the number drops a lot of times to two by two. So, that is - at least gives you the basis from which to start because I think obviously you turn to an algorithm, such a huge number of names is going to be a very impossible task for you. So, at least you need to start with something simpler.

MR. EADY: Athanassios, when you said this in a database somewhere, I mean, what are you talking about?

MR. DIPLAS: Yeah. The numbers -- the way the market is communicating this level right now is actually by blasting out Bloomberg messages to everybody. So, clients actually have the problem of getting way too much information. Vendors have stepped in and actually have taken all the information and started sharing it in a way that actually becomes useable for market participants and they -- given the fact that they have stock in a best bid offer.

Now these vendors have kept all that information and as part of the study I mentioned earlier, we gave a three-month slice of that information to regulators so they can actually see how -- what kind of quotes were actually given out and how the market was trading. At the same time, you can see where actual trades occurred. So, you see if the -- how well correlated basically the trade was to the actual quote. So, if the trade was done at five times the size, you would see a difference.

MR. YELVINGTON: Additionally, just to kind of echo the comments that Bill made earlier, you know, you have to take into account not only the time at which the transactions occurred, acknowledged that for various instruments that may be a little bit more granular, I was thinking here possibly in the area of credit derivatives, it changes through time. A particular event such as, you know, a corporate disaster of some sort may increase the trading activity of particular name in such a rapid fashion that what would have been a block trade before is no longer a block trade. And that can happen in a matter of a day.

MR. McVEY: Go ahead.

MR. VISWANATHAN: The only thing I want to caution is it's hard for me to imagine regulators running through a complicated process every day trying to figure out what the depth of every market is to determine what the threshold is. It doesn't seem to be -- I mean, clearly, there has to be some mechanism to take the volume, the price impact, perhaps, over the last six months. But beyond that, perhaps another approach is simply to say all trades are disclosed. But if you're over this threshold, because it's impulse like, you get a delay of one day or something and leave it at that.

So, all trades are eventually disclosed. Some are disclosed with a threshold. You know, for this market, it's 1 percent of volume. So, a hundred, you know, a hundred million, or whatever it is. But if a day later you're told, without being told exactly that it was that trade, they had a trade of, you know, maybe 300 million occurred at that price. And that might be a compromise that might work rather than requiring the regulators to collect, you know, information that it may be difficult to actually do.

MR. McVEY: Yeah, I would agree with that. I think simple is better with respect to block trading rules. Fortunately for all of us there is more and more data available on OTC trading activity through the growth in central clearing and also the DTCC warehouse. And I think it's instructive, in terms of which instruments have different levels of liquidity and what block trading rules might apply to, say, a CDS index versus an inactively traded single name.

But I think it's important to keep the rules simple. I think TRACE has worked and it's generally simple. The only caveat to that is what's liquid today may not be liquid in six months. So, I don't think you could do this one time and forget about it. I think it requires some regular monitoring, but I think simple rules would be better.

MR. DURKIN: Just to echo Bill's comments, though, earlier, and also to compliment your comments, yes, simple is better in the context of the users' need to understand what the rules and the requirements are to be able to accomplish these block provisions; however, there definitely is something to be said for the differences in liquidity based on time zones. And there are levers that you can put in place, as Bill has suggested, to accomplish that to deal with those market idiosyncrasies based upon time zone.

MR. MASTERS: Just to make one point that I made yesterday in the block panel, I mean, there is a key difference here between pre-trade transparency and reporting and post-trade. I mean, clearly, the post-trade regime is much narrower than the pre-trade period where people are going to, you know, Alltax or -- I'm dating myself here -- but, you know, other vendors to try to discover what the price should be.

The post-trade regime, as a general rule, should be much tighter. You know, the public needs to see the trade ASAP and I understand the dealer has to hedge, but in many of these markets, as we all know, these over the counter trades can be broken out into, you know, the least common denominators. And it doesn't take long to -- not as long as maybe some would like to postulate, to actually get your hedge done.

So, there is an offsetting public interest here in the sense of we would like to see the data as soon as possible, including market participants, regulators, but we would also like to see it in a standardized format. We would like to see the data in a universal way, so that we can all comprehend the data.

So, if we're doing, you know, a billion dollar interest rates swap-- the trader on the other side of that swap knows how to break that down into its component parts because he has got to do his own hedge. And so, I would like to see it, in terms of a delta equivalent, to its nearest listed equivalent, if possible, so that we can compare apples to apples. And that's critical not only for regulators to be able to do things like position limits and so forth, but it's also critical for market participants to be able to be involved in these markets because if you want more liquidity, we have got to see prints.

We've got to see those prints and see where things happen and that stimulates activity. If we don't see the prints, the post-trade prints, on a quick basis, then the market -- some of these markets are going to be what they are now, in many cases, which is sort of back waters.

MR. KNIGHT: I would like to echo that point. Ed Knight, NASDAQ. We certainly believe that the statute seeks to accommodate block trades. We think our own model, public exchanges, are not as efficient in handling block trades. There needs to be an alternative. But what you're talking about is creating private markets and tolerating private markets. And the question is, how much of one do you want.

And so, it comes down to the definitions. And to some degree, if the private market becomes so large, you're going to destroy the ability to have a public market with transparent price discovery. So, you've got to balance a number of factors.

MR. McVEY: I would just, you know, add to that with respect to our electronic trading experience and the speed of price reporting. And I think it does go back to the benefits of electronic trading, even if the transaction is done bilaterally, which it can be done in an RFQ model. On average, for a trade that's completed on MarketAxess through the APIs that we have that facilitate straight through processing, the trade leaves our system, goes to a dealers trade capture system, is immediately sent onto FINRA for trade reporting, and is back and available publicly within one minute.

So, I think in a market that we're talking about where most instruments trade relatively infrequently, that's a great example of how e-trading reporting facilitates immediate and real time transaction price reporting for the overall market.

MR. DE LEON: I would like to separate sort of a couple of concepts because I'm not sure I agree with some of this line of thought. I think that the public good is to reduce counterparty exposure, to reduce systemic risk, and to have pre-trade price transparency for things. I do not think that everyone has a right to know what everyone else does.

And so, I sort of disagree with that. And I think TRACE does an incredibly good job of providing good real time information about what has traded in terms of a block, in terms of sizing, and coming up with a meaningful mechanism for it, but every single transaction that gets done creates several issues. It creates the free rider problem, it creates the winner's curse, and it also takes the incentive to do people's own research away, because when someone does a trade, it means that they have done economic work, they've done financial work, they've got an investment guideline they're trying to achieve on behalf of their investors, many of which who are small investors who have pooled their assets, possibly.

And that information and research, by doing a transaction, is signaling information. And everyone doesn't have to have that information for free. And that sort of defeats the purpose. The purpose here is to make sure that when people transact, that they get the best price possible, not that they know what everyone else in the market is doing. And I think we need to separate that. And TRACE has done an incredibly good job of sort of mitigating that issue. And it's a very good compromise.

And if you look at the equity markets, to get around size and block trading, there are people who spend millions upon millions of dollars to come up with algorithmic models to hide what they're doing electronically. So, they break up block trades into small little pieces. So, I think that the market will go out of its way to avoid this. And it will cost money, it will cost investors money, it will hide information.

MR. COOK: If we could just finish -- wrap this up quickly. So please go ahead, but I want to move onto some --

MR. DIPLAS: Yeah, I'll do that quickly. Athanassios Diplas.

I think TRACE is a good example. And we have seen TRACE has affected behavior. That -- it doesn't have to be good or bad, but it changes behavior. And where we set those limits is what dictates the behavior of the counterparty. So, in the example that Bill mentioned that the large trade is broken into smaller pieces in order to be actually liquidated in the market, that means that the risk has moved from the dealer that normally would take it in a large chunk to his counterparty that actually has to take that risk. So, that is something we need to be cognizant of. And where we set that limit is going to dictate that behavior.

And the last part is that I agree with Bill, there is no inalienable right for everyone in the market to know where every single trade has occurred. The point of transparency is to enable the participants to do their transactions in the best possible price. But if that comes at the detriment of the two transacting parties, clearly we moved too fast. So, it's an issue about achieving that fine balance.

MR. COOK: Okay. Thank you. Why don't we move on to the -- some of the other core principles we want to explore. Heather, do you want to ask the next question?

MS. SEIDEL: The Dodd-Frank Act, under the Dodd-Frank Act, SEFs, swap execution facilities, have an obligation to monitor trading on their markets and also to enforce the rules that they put in place with respect to trading on their markets.

I guess if we could get the panelists' views on sort of in this new world where you have markets that have obligations that they might not have now, how would that work? You know, what do the markets think about how they might go about carrying out their obligations, market participants that would be subject to those obligations, views on, you know, sort of how this would work in the new structure where there are sort of regulatory obligations on the SEFs.

MR. HARDING: Julian Harding. Just as a slight preamble, the Wholesale Market Brokers' Association gamely attempted to send off a discussion draft on the core principles for SEFs, as soon as it was able, to both the agencies here. And I hope everyone knows that. I have a copy here if anyone needs one. As we know, the core principles for SEF were born of something very similar for a DCM and we've attempted to be flexible and adjust some of the core principles to reflect a more competitive SEF market that we might imagine for the future.

But on the specific point, you're asking, Heather, the -- our view on the SRO type of issue. We endorse the idea of an independent SRO populated, hopefully, by practitioners who understand, at least a large body of which will understand, the swap marketplaces, which is not the case right now, probably in existing possible entities that could fulfill the function. And we would also like to imagine a situation where there is one unifying SRO for all SEFs, so as to avoid any sort of imagined regulatory arbitrage where one SRO allied to a single SEF might interpret its obligations differently.

MR. KNIGHT: I would like to make a comment just on the statute and how we view it. I think, from the perspective of a stock exchange and subject to exchange-like regulation, our first question was what did Congress intend here. And to me, the most revealing language is in the Senate report where the report states trading more derivatives on regulated exchanges should be encouraged, because it will result in more price transparency, efficiency and liquidity. In order to allow the OTC market to adapt to more exchange trading, the legislation provides for what was then called alternative swap execution facility.

To me, they're equating the regulation in this area to something very much like an exchange. Then when you look at the language of the statute, the key responsibilities of an exchange is the ability to enforce its rules against members. Its responsibility to do that, its obligation to take disciplinary actions and to investigate. Those verbs are all found in the core principles here.

So, and I think there is some logic to this because given the history of the financial crisis, given how the markets operated, I think the system of regulation of futures markets, the cash equities markets, seem to work. And Congress noticed that and wanted something like that in this space. I mean, we complain, at times, about the level of regulation, but it works. And I think the record is there. Those markets did not shut down. They continued to operate.

The taxpayer did not have to step in and fund them to keep them going. People did not necessarily like the prices they were getting, but they were continuously operating in a well-regulated manner.

So, I think that system of regulation, which Congress did not make any major changes to in this latest round of reform, is what they were looking to hear from this language as a legal matter. Now, the self-regulatory organization model, we use it. We outsource to a fully independent, what we believe, the gold standard of regulation to FINRA. We think that opportunity is helpful to the market overall. It provides us with a degree of independence that I think is irrefutable in how we, in particularly, enforce our rules against our members, so that there is no question about impartiality. But I think strictly from looking at the statute and the history of the statute, what the Congress appears to be asking for is something much like the way an exchange is regulated.

MR. SCHOTT: Julian and Ed, you guys both in your answers sort of raised two distant concepts. One is who is doing the regulation, and you mentioned the SRO model. And I think we definitely need to talk about that, but I want to just sort of go a step back and go to the first part of your answers. And that is what ought they be doing.

So Julian, you mentioned the SEF core principles sort of born of the DCM core principles. And we have certain expectations around what appropriate trading practices are in a DCM and what practices are of concern and so forth. When investigations are conducted, violations are found, there are disciplinary actions. There is a structure in place. And it's fairly standard across the DCM.

So, I'm sort of wondering what the opinions around the panel are in terms of what are the sorts of conduct that -- whether it's the SEF itself or third party SRO, ought to be looking for. What is a prohibited trading practice on a SEF? How does it differ from a DCM? And once those practices are found, what sort of standards ought to be put in place around sanctioning the conduct?

And as you answer that, think about, you know, are some of the concepts, at a big picture level, relevant in the SEF context as they are in the DCM context. We have a lot of rules in the DCM context that revolve around the intermediation of customer trade. And so you are protecting the customer. Are those sorts of concepts relevant in the SEF world?

MR. KNIGHT: One comment, which is, be careful if you're thinking about setting standards that are different based upon the instrument standards and behavior. I think we are seeing more and more, and I guess that's another topic here, how these markets are interconnected. We do not want regulatory arbitrage between them. And again, you have a long record of certain principles that I would have to think you believe work and you've got a statute where, you know, I've been asked does this create a national market.

I -- and looking at the SEC language in the 1970's, I think this goes well beyond that where the SEC was given the authority to do it without a lot of, frankly, guidance from Congress. Congress has gone a step further in giving you explicit guidance about a market that it wants structured for the whole nation. It doesn't say this only applies in the lower 48. This is a national market with national standards and you've got a broad ground of authority to write rules here.

MR. MASTERS: I would just say that there is -- you know, in terms of what you were saying with regard to conflicts of interest, there is a lot of issues here in terms of, you know, what, I think, Congress intended, you know, in terms of, you know, when you look at SEFs versus DCOs, for instance, and you talk about, you know, compensation for referring business.

I mean, there is a lot of real tricky conflicts of interest here that I don't think the public wants to see. You know, clearing and matching, you know, really need to be separate businesses. I mean, someone that clears ought to have different alternatives. There is an issue, you know, the old, you know, payment for order flow kinds of issues that we've seen in the exchanges. I mean, there are some things that we've dealt with that didn't work so well at equities that we would like not to see in this sort of pro forma regime that you're setting up.

But there's -- I think there is, as far as I'm concerned, there is going to be a very severe look at the whole notion of conflicts of interest in many different forms and how entities relate to each other and whatnot. And moreover, if those situations are anti-competitive. We want a broad, diverse group of participants involved, but we don't want levels set that prohibit one group at the expense of another group.

MR. HARDING: Julian Harding. I guess the most important difference between the SEF and the DCM situation is that the SEFs in the future, as the IDBs are now, are competitive entities. And I think that there is a lot of questions of quality in the future of the surveillance or monitoring that will be undertaken by SEFs. It's just that they can only really do it in the -- within the confines of their own execution facility. So, they can -- as has been coined before, they can see what's going in their own classroom, but they can't see what's going on in the overall school or the playground. So, I think that's a primary difference as to what they're quoted as seeing.

MR. WEISBERG: I think the regulators need to be mindful that often these markets that they're writing rules for are global markets. So, I would say even though the rules may apply nationally, the marketplaces themselves are global. Our clients are global. We are in a currency market, which is global. And that really transcends all of the rules that people are writing.

So, there is no open and close for a foreign exchange market. It's a continuous market. But there are liquidity differences during times of the day and as an unregulated market, it performed quite well through the prices customers were always able to transact. So, I think the regulators have to make sure that continues to be the case after the introduction of rules that I think we all feel could be beneficial for the entire industry.

With respect to, you know, compliance, we -- in order to create a competitive SEF market, we think it's important that SEFs are able to outsource or delegate the surveillance function to third parties, appropriate third-party providers. We think the enforcement needs to be simple and not necessarily cumbersome and involve extraordinary expenses for the SEFs. And we think a suspension or revocation of trading privileges on a SEF, is oftentimes a very effective mechanism to ensure that people comply with the rules.

MR. DIPLAS: Okay. Athanassios Diplas. In terms of the exchange model versus not, I think it is clear, and the drafters were very clear, that they did not want just the exchange model. That's why they wanted to be able to define the SEF. And they did that in recognition of the complexity of the market, of the derivatives market, that meets something more expansive.

So, that creates certain problems and also, you know, certain challenges, basically, in that for example, we would have multiple facilities for the instruments traded. We also have multiple venues in which instruments clear. And therefore, as we discussed in the swap data report, sometimes you will be able to look for enforcement of the principles in the actual SEFs and then you might have to go wider as in the data report so we can get a better slice of the whole market. So, I think we need to take a step back and go for a little bit more open model.

I don't have strong views of the outsourcing of the -- some of these functions or not, but the point is the market is much more complex than a single silo market that is containing one exchange.

MR. SCHOTT: Just one last question on this. Oh, no, please, go ahead.

MR. DE LEON: No, I just -- to reiterate some points. I think it's very important that -- I'm agreeing with Athanassios in terms of not being overly burdensome in terms of the regulatory things, so it's not meant to replace a DCM. However, it is very important to keep in mind that as regulations are written and rules are determined, that this is a global marketplace and we want to be careful to avoid regulatory arbitrage or a preferential market treatment.

And to the extent that we've seen this now already, a few people on this panel constantly are competing with overseas based markets in terms of clearing futures and their offerings, which I think is a good thing in terms of competition is good in this market as long as the right safeguards are in place for futures. We're going to see something similar for clearing of derivatives as well as for SEFs.

We want to make sure that whatever rules are created don't give an outright advantage to an overseas or one exchange versus another due to location, because you'll wind up losing control or having less impact where things go and you'll have both the ability to arbitrage by doing trades similar in nature on one exchange versus -- one SEF versus another. And more importantly, there will be a preferential treatment to where you want to clear your business, which may not be here if it's too onerous.

MR. COOK: Thank you. I just want to follow up on this, pick up certain aspects of the conversation here, where, Ed, you mentioned the national market system, and other people have drawn analogies to the equity markets and this question of arbitrage and different rules resonates a little bit with some of the debate that is happening in the equity market now where there has been a mandate to develop a national market system. And there is, has been an effort to balance competition of orders with competition of trading venues. And, you know, that's constantly the issue is to get the right balance there.

So, the question I would ask is when we're talking about the rules that SEFs will impose on their members, how uniform should we expect those to be. How much -- what's the cost of allowing SEFs, each SEF to develop its own rules. What's the benefit of allowing each SEF to develop its own rules. If you're an investor trying to trade in these markets, how important is it to you to have a uniform set of rules that you can follow, so you have certainty, regardless of which platform you're trading on, as to what the rules of the game are, how much will imposing a requirement like that restrict the innovation of models that some people have argued on this panel and the last panel is important to the development of this market.

MR. McVEY: I would tend to favor a uniform set of rules for all SEFs. And I agree with the comments earlier that being able to discharge someone -- not discharge, but share some of those responsibilities with a third party that may run a business in supervisory oversight of SEFs would be important from a cost standpoint.

I think historically, electronic trading venues have successfully competed along the lines of technology, liquidity and price, and I do think that you can enhance competition in this space while at the same time, having consistency and efficiency in the rule process.

MR. VISWANATHAN: I would tend to agree. You probably want to standardize clearing rules. The last thing you want to do is to find that you could clear across different SEFs in different ways. And you probably want to standardize some transparency rules and reporting rules. But within that, you want to allow -- from the equity markets, we've learned that allowing some degree of competition, kind of shakes the status quo in positive ways because it can lead to other outcomes as we've seen with stock pools of liquidity. But if you can get the right innovations and not restricted, I think that would actually be socially beneficial.

MR. MASTERS: I would just -- this is Mike Masters. I would just say that, you know, I think the key focus here for the regulator is to prevent a race to the bottom in the sense of, you know, establish a uniform set of rules. Innovation is great except when it concerns regulatory arbitrage. And if you don't have a standard of rules that people across the board are -- have to comply with, then you're going to get a race to the bottom because, you know, one person has a -- you know, you have an easier time doing business here than there and people won't actually go there and then you're defeating your purpose as a regulator.

So, I think it absolutely has to have -- there needs to be standard rules. It has to come from the regulator.

And I think the competition and stuff will take care of itself once people know what the playing field is.

MR. SEMLITZ: Don't you think that there's going to be issue with international versus domestic. That, even if you have standardized rules in the United States, that overseas you're going to have a different set of rules that already exist today. And it will be just compounded as we go forward. So, then how are you going to deal with the fact that U.S. rules, even if they are standard, are then offshore rules?

MR. MASTERS: I think that in 2010, fiduciaries in general want more regulation, not less, as a matter of precept, in terms of where they're trading and where they're clearing. You know, there is -- you know, quite frankly, there's -- I'm not sure there is that much you can do about overseas other than linking -- trying to link regulatory groups together around the world. And I think that's something that needs to be done proactively by regulators.

But clearly, I mean, someone has to come up with a standard. And I actually think if a market is known for being the one with the most integrity, the one with the best chance of having the most fiduciaries and institutional investors around the world where there is the most trust in that market, I think that's going to naturally attract business. And again, maybe you can get, instead of a race to the bottom, you can get a race to the top.

MR. KNIGHT: I mean, what we've observed in Europe is that the regulators there are watching very closely what the U.S. is doing and often waiting to see what they do and follow what they do. And I think some of them are pretty open about that and other countries the same way. So, I think to say don't do that because people won't follow I'm not sure is correct.

In terms of uniform rules across market centers, I think there is the factor of, of course, different market structures and we would need -- if a SEF had a floor, a different set of rules and additional principles and all the electronics, but I think it should be core principles that apply across the various venues to promote competition.

MR. DURKIN: I agree with that last comment. I was a little concerned that, you know, not every organization or market is exactly the same, that there should be core principles that need to be followed across a sector, but you must allow for some level of flexibility on the innovation side of things. So, you know, the rules of the game, you know, should be very consistent across the industry, but there should be capabilities there for a market to be able to innovate.

MR. DENIZE: Again, as an end user, I think we certainly are supportive of measures and processes that would lead to supporting competition, but our traders don't want to have to figure out the arbitrage among, you know, 20 SEFs and what rules they might be applying to themselves and so forth. So, the uniform set of rules makes our decision-making a lot more streamlined and we can focus on the true issues that we're focused on for our products and for our participants, which would be the elements of the economic products and the economic risk mitigants that we're seeking.

One of the issues, as you do set up the uniform set of rules, that we are concerned about, is to be -- to ensure that the governance process certainly includes the voice of the end users from the outset and throughout the process. One of the clear observations of the OTC derivatives market, prior to the crisis, was its lack of transparency and lack of openness.

As we move to a regulated environment, the end users have a strong voice that need to be heard throughout that process. Even though we may not own the clearinghouses, we may not own the trading systems and we don't necessarily need to do that, although we should be, perhaps, members or we should be participating in the advisory committees and the rules and governance committees that are applying these uniform sets of rules.

MR. DIPLAS: I would agree with some of these comments with respect to the end users. I think if you have seen something encouraging over the last couple of years is that the governance structure in the market has changed to include the end users, and I think this is going to continue. The same thing goes for the CCPs and, as you've mentioned, the advisory committees, including the end users, and this is going to continue.

The second thing that's also encouraging is that I think we have good evidence right now of international regulatory cooperation. We have the global supervisors forum, which now includes, what, 30 or 40 participants, more or less. And I think that that -- they're taking that job pretty seriously. So, in order to kind of -- it's a balance of trying to ensure that we can have innovation and at the same time have actually a well regulating environment we need to, I think perhaps, look at the more hybrid system.

We start at the top with the core principles. Perhaps we have some kind of set of super rules that actually apply to everybody and then you have a certain lower set of rules which actually are more flexible. But there are the different steps to operate, because they deal with different products and they need that flexibility. It allows the new participants to come in and offer something better. So, that would be a bit more flexible and balanced approach, I think.

MR. YELVINGTON: I think also having, at the very least, a core set of rules around the regulation there really might engender quite a bit of innovation, because it takes away a lot of the business risk for somebody looking up to set up a SEF. It actually helps them know their boundaries at least on a minimum basis. The same could be said with the conversation earlier this morning when people were discussing, you know, a standard for RFQ versus central limit order book.

If you define the minimum and provide a, you know, a metric by which the market can evolve itself, then we'll get a better answer as to what's preferred by the market for different instruments, and I think that you'll probably end up seeing, not only on the regulatory side, but on the market structure side, different instruments will trade in different markets just because they trade better there.

MR. COOK: So let's move onto the cross-market portion.

MR. SCHOTT: I think we've already touched on a lot of these issues, but, you know, one of the things that we're struggling with is how do you appropriately regulate a market where a product can be trading across so many different platforms. Someone mentioned the schoolyard model. What happens in a classroom model? Who regulates the schoolyard? We can say the SEFs can regulate what's happening in their own market. That leaves a gap.

People have suggested a super SRO. I was wondering if just the panels could give their opinions a little bit as to who that entity might be, what sort of a relationship between the SEF and the SRO, what role the SEFs should still have, you know, either in terms of overseeing the services being provided for them. If there are super rules versus some local rules for SEF, does each SEF oversee its particular rules and leave the sort of the master rule book to the overall SRO. This is an area where we're just giving a lot of thought to. So your opinions would be welcome.

MR. DE LEON: Hi. This is Bill De Leon. I think it's important to think about the roles that SEFs play in terms of the overall connectivity and the whole process. And that will sort of give you some guiding principles. I agree with the comments here that there should be some set of minimum standards for SEFs in terms of what they report, how they regulate requirements in terms of trading information, but there should be innovation.

The two important things regarding that that I see is once a transaction is done on a SEF, it has to be given up into a CCP. So, you need to know that there is a process and capital behind the trade that's done on a SEF, so that it winds up in a CCP and is matched. And that's an incredibly important thing. To the extent you're trading directly on the CCP -- so, if I were to use ICE and then give up into ICE or I trade on the CME and give up into the CME, it's one unit. I have a lot less risk. But if I trade on some other third party vendor and then it gets given up into ICE or CME, or whoever it may be, I need to know that the process between the transaction and it getting there is going to be highly monitored and there is going to be capital there.

So, just like all of us do detailed counterparty exposure management and credit review of any CCP we're going to use, because we want to make sure that the CCP stands behind it and whoever we are using to clear our trades are sufficient, when I do a transaction with a SEF, I need to know that they need some minimum standards that I have incredibly high degree of confidence that that trade winds up in the CCP.

It would be analogous to what we see when we trade equities. I can trade equities on multiple venues and then it gets given up into my actual clearing account. The beauty of most of the equity markets in the U.S., and probably all, is that I do a trade and very few people worry about where I did that trade and it getting cleared and me taking counterparty risks. Obviously I take credit risk or equity risk by doing that trade, but that component is taken out.

Whatever regulatory environment, whatever rules are set, I would argue you need to make sure that the three legs here are similar, that the -- when I do the trade, who I use to do my SEF execution is going to stand behind the transaction, the SEF itself will stand behind it, and then it will wind up in my CCP. And that connectivity and the credit risk there is limited or removed as much as possible and there is an overriding set of principles and rules, so that I can sleep at night, about the counterparty exposure, the clearing, the connectivity.

MR. SCHOTT: Do other panelists have thoughts just around some of the more practical elements of establishing this SRO and sort of the legal relationships between the SEFs and the SROs, the financing of the SRO?

MR. SEMLITZ: To have a consistency in regulatory. It would seem to me that the CFTC ought to be regulating all SEFs that relate to commodities, and the SEC ought to be regulating all SEFs that relate to securities and apply the same standards you're using today across all markets. Therefore, it takes out the regulatory arbitrage. You've got counsel at every firm who is used to dealing with the regulators who are regulating them already and that creates a tremendous amount of consistency across existing markets today and the markets that are going to exist tomorrow.

MR. SCHOTT: Speaking of markets existing tomorrow, we have, I forget what count we're at now, 330 some days before sort of this goes live. If that third entity isn't

set up yet, what's the interim solution? Any ideas will be
accepted.

MR. KNIGHT: I think if the demand is there, and I believe the demand will be there, there will be offerings here and I -- you know, you look again at the FINRA example, both the New York Stock Exchange and NASDAQ use them, and they facilitated the entry of many other competitors in the space. So, I don't think you can no longer say that regulation is a hurdle to competition in our space. I can't see why a similar model wouldn't work.

MR. DURKIN: And I think there is something to be said for the template that, you know, you've already established in terms of the respective agency's oversight into the centralized markets as they exist today and, you know, the establishment of, you know, rules, criteria, capital requirements, you know, a lot of the things that Bill, you know, had expressed, you know, the need and desire to have in place. So, there is that confidence for this central counterparty risk management capabilities. I mean there is a very solid template out there that can be built upon to adapt to this new evolution.

MS. ADRIANCE: Thanks. In terms -- I mean, we've -- there was a little silence there when it came to suggestions for a possible third party, except there has been one or two suggestions. But in terms of this -- to get back to what was mentioned earlier, the interaction between the individual SEF, well, I should say derivative SEFs, and if there is this third party that is out there in the shadows that we do not yet know who exactly it's going to be and it may be more than one, or maybe it's one, it would -- so there are several questions there.

One is what, you know, what is the -- what responsibility -- it is one that Sebastian asked earlier. What is responsibility that you see being given up as compared to what is being retained. It was mentioned earlier, for instance, that an appropriate step, if there has been a some kind of you've gone to the design process, there could be some kind of -- one appropriate step would be that a trader has lost access to that SEF. Well, is it just to that SEF or is it across all SEFs. And who does that?

Is it -- so if it's just one SEF, that SEF can just pull the plug. But should it be -- you know, if something has happened on one SEF or has happened on multiple SEFs, should there be some coordination between what happens? Is this third party, this mystical third party that is going to do this? Should it be that each SEF has a responsibility to do its own after being notified by the CFTC, the SEC, some third party?

How is this interaction going to work when you've got -- you may have issues that are not going to be kept to necessarily one SEF or in each SEF you -- if there are several parties who end up being SEFs, you may not know, on one hand, when you're seeing a problem, if it's happening on other SEFs. What should happen?

MR. KNIGHT: Well, I mean, in the exchange space, there is some robust principles in this area. There is the principle referring things to the appropriate regulator when you see a problem even if you have a suspicion of a problem. So, it gets widely disseminated. You have access rules that make it clear when you can deny access to someone for a regulatory problem. And again, you have to share that information.

And so, I think there are processes in place that you can borrow that are pretty well established. You know, one is all stock exchanges -- and the SEFs I wouldn't see why you wouldn't do the same -- you are regulatory officers and you have an obligation to enforce the rules. Even though you may be a salesman, if you see something, you have to report it. You know, these basic principles, I think, serve us well.

The question of what you would outsource or not, I think it really depends on who the vendors and what the capabilities of the SEF are, but generally, the most awkward aspects of these, if you will, self-regulatory responsibilities are enforcing rules and disciplining and investigating your own members who are also customers.

So, that is what we outsource to FINRA. And, but the real time surveillance of the market and issues related to that we conduct internally. The process of determining what fits on our market or not we do internally through an independent group that's again subject to oversight by the SEC. But, you know, the awkward piece is enforcing those rules against people who your salesmen are visiting the day before. And that's where outsourcing works.

MR. DURKIN: Well, I would have to take a little issue just from our existing model, and I'm using the centralized market at the CME group. I mean, we are, you know, a self-regulated organization. We have very stringent rules and regulations. We have a very aggressive market surveillance and trade practice surveillance program.

We do take actions and we do review all of our activity that occurs across all of our products every day. And if we find trade practice abuses, we take appropriate action and it gets publicized to the CFTC as well who may also take action and decide to pick up the case. So, I would just be, you know, very careful in saying the awkwardness of being able to monitor and regulate your own markets because that model has worked and it has been in place for many, many years.

MR. KNIGHT: Yeah. I premised by saying if you have the capability. You all do it well and I wasn't in any way criticizing your model, but I think the option of being able to do that is healthy out there. I think.

MR. McVEY: It was a multi-part question. So I'll take a crack at a few pieces of that. But FINRA has been mentioned several times on the panel today as a logical entity to provide some of the oversight services. I think NFA is another logical entity that would be willing to compete for that business if it's made available.

I personally think that any SEF has to be responsible for the fairness and safety and reliability of their own marketplace, but I would agree that when it comes to arbitration and enforcement of the rules and fines, that's an area where we think it would be logical to lean on a third party like FINRA and the NFA.

And I also think that since I believe you do want to encourage competition in the SEF space, a large trader reporting is another piece that could be handled better on an aggregate basis by one of those entities, as opposed to a variety of different SEFs.

MR. DIPLAS: I would agree with that part. I think, to go back to Riva's initial question, you need that third party because you acknowledged that the market is a little wider than that one silo containing one SEF. And so, the SEF can actually do on its own what it can see, but you need that third party to deal with the stuff that that one SEF might not be able to see.

I would be agnostic in terms of which entity, in particular, could actually carry out that task, but at the same time what I would want that entity to have as a qualification is the knowledge and experience in the underlying asset class. The way SEFs are most likely going to be organized is along asset classes. And so that expertise is, I think is going to be very important.

Now some SEFs might actually do multiple asset class in which case, in some ways, that third party could cover those or it could be a multiple of those. But I think the expertise in that asset class has to be demonstrated and something that we need to focus on to make sure they understand that because what works in equity, doesn't work in trading, et cetera.

MR. COOK: I want to make sure -- thank you. I want to make sure we have time for our last topic, which is an important one, and it's standards for SEFs to fulfill their obligation to maintain impartial, open access. So, why don't we begin the questions on that topic.

MS. SEIDEL: Well, I think the -- you know, as Robert noted, there are obligations on SEFs in the Act to ensure impartial access to their markets. And so, we would -- you know, sort of an open question as to how would SEFs go about doing that and what types of entities, you know, would or should be allowed to have direct access to the markets.

MR. McVEY: I will take a crack at that since no one seems to be diving in in any hurry. But I think the criteria for access have to be fair and impartial and, you know, ideally, publicly disclosed. We have an institutional credit market and as a result, qualified broker-dealers are welcomed to make markets on the market access system and qualified institutional buyers are welcome as buy side participants. So, I think if there are fair and impartial criteria and they're publicly disclosed, then I think the open access issue would be addressed.

MR. DURKIN: I would just say that every registered entity should have the ability to set the terms and conditions for their participation on their direct system. And within that, there should be, then, impartial access. But I do believe that, you know, every registered entity should have that flexibility to determine what those requirements are.

MR. DE LEON: Hi. This is Bill De Leon. Yeah, I think it's important that things be impartial, but there have to be minimum capital and/or regulatory standards for anyone to have access or to provide access to clients. This is analogous to sort of the know your client and as well as sort of to become a member of an exchange, you would have to pass certain minimums.

What those minimums are, I'm not referring, you know, someone should set, but there needs to be a uniform set that are not, you know, capriciously set or sort of too high to hit the bar for anyone joining. But there obviously needs to be a bar set, because there is risk associated with the transaction being done that the person who does the transaction can't stand behind it or that even if they can, that the SEF needs the capital to make sure it gets all the way through.

So, you need to ensure that the SEFs themselves and the clients who use the SEFs on the way to having things cleared in a CCP are not creating systemic risk in the system. So, there needs to be these minimums.

MR. SHILTS: Bryan, is that what you were pretty much referring to?

MR. DURKIN: That is, you know, that they need to equally enforced across the participants and that, you know, you have these types of minimums established, the main predicate of maintaining market integrity.

MR. DIPLAS: Athanassios Diplas. I would agree with both Bryan and Bill in that respect that standards are needed, but those standards have to be objective and they have to be transparent. But standards are needed, especially since we are actually linking the SEFs to clearing venues and we need to ensure that actually the trades are -- actually are going to get where they're supposed to get and the participants have claimed, for example, that they can offer clearing services are indeed able to do so.

MR. HARDING: Julian Harding. Yes. It can't be emphasized enough the need for impartial non-discriminatory access to the DCOs from the SEFs. The existing IDB, entity, the broker marketplace, as I said a little earlier today, will necessarily be expanded to include those entities that are mandated to now trade through a SEF or a DCM for a clearable swap. And further to that, there will be an evolution, I think, the way the public policy is constructed towards further entities who are not mandated to be -- to trade through a SEF to be -- to trade through a SEF in the future.

The constraint that has existed to date has been, as I mentioned before, difficult creditworthiness issues around the time of the trade, which now with clearable solutions being offered and mandated more broadly will be removed. And that will open up the marketplace, the SEF marketplace to a greater -- a broader population for sure.

MR. MASTERS: I would just echo those comments. I mean, there is a clear anti-competitive provision in the statute here that we're talking about. I mean, there is -- you know, especially with regard to SEFs. And one of the points I was making earlier with regard to conflicts of interest with SEFs and DCOs, is you don't want DCOs, you don't want a linkage there where there is anti-competitive kind of behavior. You want access from participants.

It's one thing to clear a trade, it's another thing, you know, with regard to a SEF. I mean, trading and clearing, you know, we've got to make sure that there is -- that the market is anti-competitive, that we allow a significant amount of participants to get involved in these markets, especially in the fact, because they are going to evolve. They're going to move forward. And I think that's the healthiest alternative.

MR. KNIGHT: Appropriately, there has been a lot of focus on the initial access to the market. But I think, just from a regulatory perspective, there is this question of once you have access, you have a group of members, if you will, there are times when you have to, for regulatory purposes, remove someone. And that has to be done also in a uniform manner. You can't have ambiguity around that.

MR. YELVINGTON: I would also like -- you know, in the spirit of the legislation here, what you want to do is get some -- you know, the way I read it, you want to get more participants to help pricing, to help markets in troubled times. And when you're thinking about crafting the actual regulatory framework around this, probably the best thing that could be done would be to craft a framework that is extremely objective and not have a lot of opacity or subjective type of requirements. And also make sure that there is an ability for a firm to transfer in, a firm that could grow and mature and become a SEF member or a CCP member.

MR. DIPLAS: I think this is a final clarification though. I think that we're mixing up a little bit the access issues between access from SEF to clearing venues and access within the SEFs. And these two are two distinct issues. I agree that, first of all, all clearing venues should allow access to the various SEF as long as they actually fulfill their own criteria. The topic here is, of course, access into the SEF itself.

In that as well, we have to be clear that the advent of clearing does not eliminate counterparty risk. It greatly reduces it, but there are still aspects of the counterparty risk that are varying types of the performance of the clearing broker to actually get the trade there. There is also sometimes exposure that someone gets within the same account with other clients, et cetera.

So, it's noticing that basically counterparty risk isn't basically being completely eliminated through the new system. It has been reduced, but clients, again, will have to do their own homework to ensure that the counterparty they're trading with is actually within their trading parameters.

MR. YELVINGTON: I agree on that point. I would also point out that, you know, far from eliminating counterparty risk, what you've done here is neutralized it. And, you know, in an act of neutralization, you should seek to, again, on an objective basis, kind of diversify those counterparty risks out in such a way that, you know, you've reduced the dependence on one individual or a small number of individual participants. And whether we're talking about access to the SEF or access to the CCP, still maintain that the objective nature of things should be maintained.

MR. HARDING: Julian Harding. Just a -- you're right to qualify what I said in terms of removing risk. Absolutely.

I would like to bring up the historical precedent of the energy markets going back seven or eight years. In a post Enron crisis environment, there was a natural, dare one say, organic shift towards a clear solution that was offered by certain people around this table and the -- what might be SEFs in the future, but the IDBs at the time fully embraced that and, in fact, were definitely part and parcel of a broadening of the population that could avail themselves of the IDB markets and other markets by virtue of that move towards a cleared solution. So it did work. It has worked very well, naturally, seven or eight years ago and to this day in the energy spectrum.

MR. DE LEON: Bill De Leon. I just want to get back to what Athanassios was talking about on environment. Neutralization in and of itself is a good concept, but if the entries into that neutralization pool bring down the overall quality of it, it actually is worse than having few participants. So, you need to have a minimum standard. It is not just having additional participants being good, you have to have the right people. And there just has to be a minimum standard and they have to be enforced.

And that is why when you look at the futures market it has worked so incredibly well. When you look at the equity markets, it has worked so incredibly well. There are minimum standards in terms of becoming a clearing member, there is a minimum standard in terms of being able to execute trades and give things up and the rules in terms of segregation of assets and cash are very well defined for certain aspects of the market.

So, you have to have the same concept apply. Just because you're executing a trade the person who is doing it or the exchange you're using and who you're using to facilitate that needs to be able to stand behind it. If they can't, they're going to dramatically weaken the confidence in the system and could possibly lead to people taking risks that they're not aware of and/or making the system less stable, which we've seen during the crisis.

So, I would just want to reiterate that I agree with the concept of more participants diversifying things as long as they are the right participants. And by that, I define the correct capital and the correct regulatory oversight meeting certain regime minimums.

MS. ADRIANCE: Just to, in terms of the, what has been talked about, okay, there was a -- mentioned impartial access to the SEFs and impartial access to the clearing, central clearing parties. One thing that has not been mentioned -- it was mentioned that there should not be some tie between the SEFs and the clearinghouse that would not be partial access to the clearinghouse.

In terms of what the -- we need to just go a little bit further from just in addition to what standards of who can access the SEF, can the SEF -- is it impartial access if the SEF is saying, okay, here are my standards. They're based on, you know, as mentioned, in terms of the financial standards, or whatever, that are real basic and they look really good, but get sent into us as the regulators and it looks good, can the SEF differentiate between what does access mean.

Is there a different bandwith that's provided? Is there different pricing that's charged, depending on the amount of trades? What are -- what is impartial and what's not impartial when it comes to what the SEF can -- how the SEF can treat the traders separately from these overall basics? In a sense, if it's risk management kind of standards, what other kind of links can they put in?

Can it be that the SEF can offer certain extra, you know, they can offer more information if that trader also uses other services that particular SEF, you know, and affiliated businesses or if they use the particular -- you know, it's not that they don't offer the ability to link -- to do trades and link to non-affiliated clearinghouses, but if you do do the trade on the system and you link to the affiliated clearinghouse, can they charge differently? Can they treat you differently? How does that play? You know, does impartial access have some kind of impact on that?

MR. VISWANATHAN: Vish Viswanathan from Duke. I guess you're kind of opening the can of worms that payment for order flow opened in equity markets if you start allowing me to bundle clearing and, you know, trading in some way. You say oh, if a clearinghouse access, if you trade through, you know, this particular SEF, you know, I'm going to give you a discount, I think that defeats the purpose of the -- you can't allow that kind of bundling. Neither can I think you can allow differentiation of information in some way.

Now with any auxiliary services, I don't know. It seems to be very clear that all the participants in the SEF should receive from the SEF itself the same information. There can't be these kind of inducements to kind of bundle clearing and trading.

MR. HARDING: Julian Harding. I would echo that entirely. The existing over the counter marketplaces and especially those operated by the IDBs do not have anything like you're mentioning to date. The example I mentioned of the energy markets in the last seven or eight years having transitioned into a different sort of framework, there is no sign of that either. So, there is new entrance that came in. We're not -- I'm not in any way disadvantaged. It's not something that would ever come up.

And frankly, I think, in a proper genuine marketplace, the totality of market participants all expect certain standards to be met. And they are uniform standards. And I don't think, in a genuine multiple to multiple marketplace, you could have anything less than that.

MR. DIPLAS: I think that -- I would agree that in terms of the access to information, it's a business that's going to drive the fact that you cannot differentiate customers with different information. Everybody would want to have that. So, I think that takes care of itself.

In terms of pricing, I think we need to be flexible in terms of what people do with their pricing. In the current exchanges right now, I think most participants have different prices that they can negotiate depending on their volume. And I think that the inter-dealer broker, it is definitely the case. I mean, it will be -- I cannot think that there is anybody that has the same price with their broker than anybody else. I don't even know what the other banks pay. People negotiate these things individually. So, I think to the extent that this is a private business, you should be able to negotiate these things.

MR. HARDING: Sorry. I thought you were referring to within one SEF the notion that certain people have different access and certain have different information. That's what I was referring to. But between the SEFs, there is going to be -- it's a competitive marketplace, and there's going to be differences in approach and in pricing and various things, but --

MR. DIPLAS: Sorry. Athanassios Diplas. Just to clarify, perhaps I didn't understand you. What I'm saying, if we go currently to, to a broker, let's say that that broker, just for argument sake, is a SEF itself. Currently, I don't know, we pay totally different price than someone else does. And I don't know how you determine that price. Part of it is negotiation, part of it is the volume that you bring to the business, et cetera.

So, you don't have an environment right now that we all pay the same price. So, I don't see how in the SEF it might necessarily be the case. It might be. That could be the model that you choose. I would prefer not to prescribe it to you that that is your only choice.

MR. HARDING: What I'm getting at, I guess is if you, as you say, for instance, go to two or three brokers, you're going to choose the best price to operate that. I don't understand when you say I'm going to get the same price as someone else, you'll --

MR. DIPLAS: Perhaps I wasn't clear. Within your own brokerage -- let's take an example. I'm not picking on you. Within your brokerage, I don't think all your clients get the exact same price for brokerage. Most people -- from what I understand, most people have different prices.

MR. HARDING: Are you talking about commissions?

MR. DIPLAS: Yes.

MR. HARDING: Oh.

MR. DIPLAS: That's what I mean. I mean, that's
the price that -- the SEF charge.

MR. HARDING: I'm sorry, Riva. Were you referring
to commission schedules? I didn't realize that at all.

MS. ADRIANCE: No. Actually, I was referring to
looking at one SEF, since we were talking about regulation of
SEFs, can a SEF if, you know, since they have this
responsibility to provide open, impartial access, can they

charge differently for different participants, can they provide different bandwidths for different participants, can they, in a sense, provide some different information.

If it can -- what does impartial access mean. I'm trying to get down to besides its overall term, okay, we've got to have clear standards and let people in under clear standards, can they -- is there any kind of differentiation of how a SEF can treat the different traders on that SEF.

MR. COOK: Yes. I think we're talking about commissions but by another name. So differential fees for differential services even though once they meet some across the board objective access requirement.

MR. WEISBERG: To be economically viable, and I think everybody wants economically viable SEFs, I think they have a responsibility to set objective access criteria and disclose what those are. So, that may mean they can't decide a particular person couldn't fall in that class, but once

they define that objective criteria and say okay, if we want
to have a class of participants that are market makers and
they're going to uphold a responsibility to be on a price all
the time, those people obviously have different bandwidth
requirements than people who trade intermittently,
infrequently.
And your economics are different. People who buy a
lot of things from you oftentimes get different prices than

people who buy occasionally just because the economics of serving them are different. So, I think it should be okay for a SEF to define those classes of participants so long as they're disclosed, and that they can objectively apply those criteria uniformly across all of their clients.

And I think those criteria may be different from SEF to SEF because they may have slightly different economic models, slightly different operating models, slightly different market mechanisms. In some cases, the information requirements could be different, but we shouldn't prohibit somebody from going from one class to another so long as they meet, you know, those criteria.

And I think it is super important for people to recognize there are likely to be many more SEFs than DCOs, that there is a lot more risk sitting in DCOs than are in SEFs. The capital requirements could very well be different between a DCO and a SEF. And what that's going to mean if you want to create a competitive SEF market with fewer DCOs, that, you know, you have to make sure that it's not just bundling of price access, but access to the APIs, access to technical environments, access to the quality assurance departments, those types of things, that all need to be opened up, so that any SEF could successfully send a trade to a DCO.

MR. SCHOTT: You mentioned different classes of participants. But within a class, assuming they are providing or receiving the same service, would you still allow different pricing?

MR. WEISBERG: I don't think that's an absolute requirement. It is -- we try to make ours as uniform as possible and I think it would be possible for SEFs, to make them uniform.

MR. SCHOTT: I should have turned that the other way around. Would you allow for diverting pricing.

MR. WEISBERG: I don't think it's a requirement that there is.

MR. DE LEON: You know, what Athanassios was alluding to and we've seen in the markets, different dealers for even something as generic as equities will charge different prices depending on your access point, what the type of trade is, whether it's voice, whether it's algorithmic driven, whether or not you're getting research. Some people do soft dollars.

There are a whole host of things that are involved with the pricing of getting access to trading. And the market bears what it bears and people negotiate and do those things. But I think what the important thing is, that the market will drive prices to where they go for the thing, but everyone should have access to it as long as they meet the certain minimum standards required to show that they're responsible traders.

Just like you have KYWC, you have, you know, your client issues in terms of equity and opening an account or fixed income or anything, you'll have similar issues associated with SEFs and people have access to SEFs and to DCOs, the pricing or commissions, to be blunt, will be driven by what people think is fair and it will be competitive. And I don't see a problem with that as long as it's not gouging.

MR. YELVINGTON: I agree with that. I mean, having the ability for different SEFs to, you know, tailor their businesses to their clients is a good thing and, you know, although it's maddening sometimes, I think there are a lot of things that we all buy that we all pay different prices for, depending on who we are. It helps the businesses to grow to have that ability.

You have to, when you're setting this up, from a purely regulatory perspective, however, balance that with what does that do with your reporting lines and what are you not seeing. What is being, you know, traded opaquely that you're not seeing the data on. If certain benefits are given at two different prices, there is going to be a reason why. And I think the businesses have the rights, SEFs have the right to charge two different prices. From a regulatory perspective, however, you have to ask am I giving up some information here and what am I not seeing.

MR. COOK: Ok. Thank you. So we've reached the end of our time. I think we should bring this to a close. Rick any final comments you want to make?

MR. SHILTS: I wish to thank everyone for the great discussion.

MR. COOK: I want to thank everyone for your participation today. I just remind everyone that we do have open mailboxes on our website so anyone who has an interest in these topics please submit your thoughts in writing. We would be -- look forward to reading them. Thank you.

(Whereupon, at 12:30 p.m., the roundtable was concluded.)

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PROOFREADER'S CERTIFICATE

In the Matter of: JOINT SEC-CFTC ROUNDTABLE

File Number: OS-0915

Date: September 15, 2010

Location: Washington, D.C.

This is to certify that I, Donna S. Raya (the undersigned), do hereby swear and affirm that the attached proceedings before the U.S. Securities and Exchange Commission were held according to the record and that this is the original, complete, true and accurate transcript that has been compared to the reporting or recording accomplished at the hearing.

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