

Javelin: Presentation to the CFTC



SUPPORT LINE
1-877-JAV-XCHG
1-877-528-9244

User

Password

Save username & password



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User

Password

Save username & password

October 6th 2010

Dodd Frank Wall St Reform Act 2010

SEC. 723 CLEARING

(3) *MANDATORY CLEARING OF SWAPS.*

(A) *STANDARD FOR CLEARING.*—It shall be unlawful for any person to engage in a swap unless that person submits such swap for clearing to a derivatives clearing organization that is registered under this Act or a derivatives clearing organization that is exempt from registration under this Act if the swap is required to be cleared.

TRADE EXECUTION

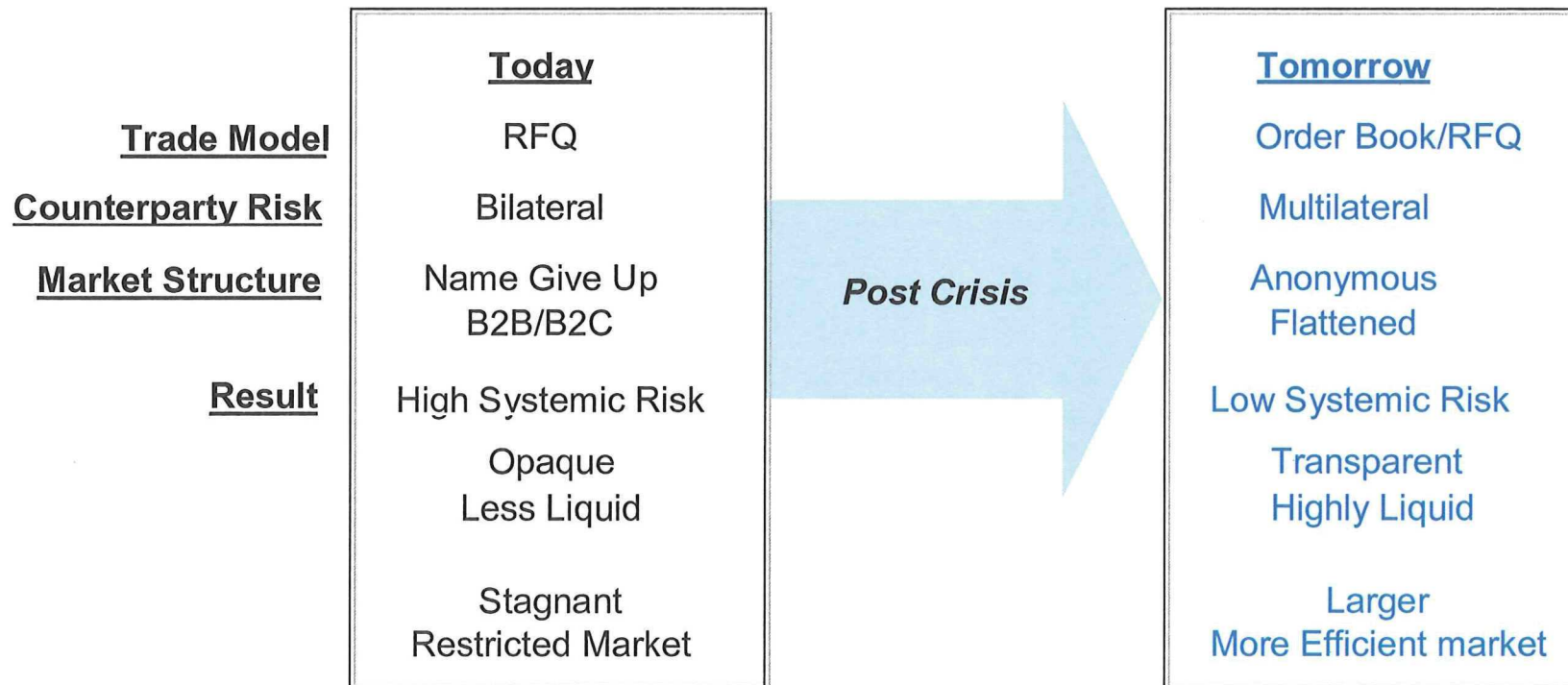
(A) ...With respect to transactions involving swaps subject to the clearing requirement of paragraph (1), counterparties shall—

- (i) execute the transaction on a board of trade designated as a contract market under section 5; or
- (ii) execute the transaction on a swap execution facility registered under 5(h) or a swap execution facility that is exempt from registration under section 5h(f) of this Act.

SEC. 5h. SWAP EXECUTION FACILITIES

(e) *RULE OF CONSTRUCTION.*—The goal of this section is to promote the trading of swaps on swap execution facilities and to promote pre-trade price transparency in the swaps market.

OTC Derivative Market Dynamic



Javelin: Core Principals for Cleared OTC Market:

1. Successful clearing of OTC derivatives is critical to lessening systemic risk.
2. Most OTC derivatives are eligible for central clearing.
3. The new OTC marketplace should be transparent to ensure investor confidence & better risk management.
4. Broad access to clearing: Multiple market makers, multiple clearing brokers means more liquidity and continuous markets especially in times of crisis.
5. Deeper liquidity lowers transaction costs and increases volumes.
6. Regulators should narrow participant, product & trade size exemptions.
7. Clearing houses must ensure open access to all SEF's and provide for objective, symmetrical workflows.
8. Clearing houses should have objective clearing broker membership standards
9. Clearing houses & SEF's should have truly representative and transparent governance structures.

Who is Javelin Capital Markets?

- Formed in late 2009.
- Pioneer in cleared OTC derivatives trading.
- **Central Limit Order Book ('CLOB') not Request for Quote ('RFQ').**
- True *Pro* Customer Solution: Low cost & fully anonymous execution.
- Product Verticals:
 - Credit Default Swaps
 - Interest Rate Swaps
- First executed cleared IRS trade via IDCG (August 2010).
- Electronic & Hybrid Electronic Technology.
- *Real Time* Straight Thru Processing & Trade Tape.
- Clearing House Agnostic (Early adopter CME in 12/09; pending ICE connectivity*).



Javelin User Interface

Javelin
 File View Order Price Data Window Help

Page List Order Entry Order View Trade Entry Trade View Trade Hist Daily Tape Hit Tape

LETTs

Line	Term	Name	SHAC	CCP	Acct	Amt	Bid	Ask	Amt	Acct	Last
70935	5yr	ASN	100	CME	35	5	220.00	223.00	5	25	222.00
70945	5yr	AVB	100	CME							
70365	5yr	BRE	100	CME	55	5	15.00				
70685	5yr	BXP	100	CME	45	5	80.00				
70825	5yr	CLI	100	CME	15	10	280.00	295.00	5	75	
70845	5yr	CPT	100	CME							
70675	5yr	DDR	100	CME							
70315	5yr	DRE	100	CME							
70025	5yr	EOP	100	CME	25	10	13.00	15.00	5	15	
70905	5yr	EOR	100	CME	18	5	12.00				
70035	5yr	FR	500	CME			77.00		5	55	
70845	5yr	HCP	100	CME							
70335	5yr	HPT	100	ICE	65	5	38.00				
70925	5yr	KIM	100	ICE	32	5	40.00	43.00	5	15	
70926	5yr	KIM	100	CME							
70125	5yr	PLD	100	ICE							
70915	5yr	SFI	100	CME	33	5	410.00	415.00	5	32	
70095	5yr	SPG	100	CME							
70985	5yr	VNO	100	ICE	34	5	12.00	14.00	5	45	9.00
70345	5yr	WRI	100	ICE							

HOMEBUILDERS

Line	Term	Name	SHAC	CCP	Acct	Amt	Bid	Ask	Amt	Acct	Last
23015	5yr	BZH	500	CME	35	5	44.00	48.00	5	15	46.00
23025	5yr	CTX	100	CME							
23035	5yr	DHI	100	CME	45	5	310.00				
23055	5yr	H	100	ICE							
23045	5yr	HOV	500	CME	33	5	10.00	14.00	10	45	
23065	5yr	KBH	100	ICE							
23074	4yr	LEN	100	ICE							
23075	5yr	LEN	100	ICE	35	10	9.00	10.00	5	18	0.00
23083	3yr	MAS	100	CME							
23084	6-14	MAS	100	CME							
23085	5yr	MAS	100	CME	36	5	55.00				
23105	5yr	MDC	100	CME							
23095	5yr	MHK	100	CME	32	5	140.00	160.00	5	45	100.00
23123	3yr	PHM	100	CME							
23124	4yr	PHM	100	CME							
23125	5yr	PHM	100	ICE	31	5	18.00	19.00	5	72	22.00
23134	6-14	RYL	100	CME							
23135	5yr	RYL	100	ICE							
23145	5yr	SPF	500	CME			63.00		10	15	
23155	5yr	TOL	100	CME							

Daily Tape

Displaying 25 of 773

Time	Security	Sz	Acct	Px	Action
11:04	SRE 5yr 1.00 CME	10	72	82.00	B
11:03	POM 5yr 1.00 ICE	5	45	77.00	B
11:03	POM 5yr 1.00 ICE	5	25	73.00	B
11:03	PGN 5yr 1.00 CME	5	45	69.00	B
11:03	PGN 5yr 1.00 CME	5	72	66.00	B
11:02	PCG 5yr 1.00 CME	10	25	57.00	B
11:02	PCG 5yr 1.00 CME	5	18	54.00	B
11:02	LNT 5yr 1.00 CME	5	15	89.00	B
11:03	SPG 5yr 1.00 CME	5	73	67.00	B

Trade History

Customer ID: ALL Sector: ALL Search Date by: TradeDate

Customer Name: ALL Instrument: ALL From: 02/01/2010

Trader Name: ALL Trade ID: To: 06/02/2010

Broker Name: ALL

Search To Excel

TradeDate	Trade ID	Time	TimeS	CCP	Amt	MM	Instrument	CM	SFC
2010-02-18	10025403A-1	10:38			5		CYT 4yr 1.0		
2010-02-18	10025402A-1	10:05			5		KR 9-10 1.0		
2010-02-18	10025401A-1	10:02			5		KR 9-10 1.0		
2010-02-16	10025374A-1	12:02			5		SPG 5yr 1.0		

Order View **Trade View**

Displaying 49 of 49 Displaying 106 of 106

ID	Order ID	Sector	Security	Date	Trade ID	Time	TimeS	CCP	Amt	MM	Security
23015	011109-jcawley	Build	BZH 5yr 5.00 CME	06/02/2010	10065808A-1	11:01		CME	5		CEG 5yr 1.00 CME
23015	B13214-jcawley	Build	BZH 5yr 5.00 CME	06/02/2010	10065807A-1	10:59		ICE	5		PHM 5yr 1.00 ICE
23035	B13215-jcawley	Build	DHI 5yr 1.00 CME	06/02/2010	10065806A-1	10:59		CME	5		MHK 5yr 1.00 CME
23045	B13216-jcawley	Build	HOV 5yr 5.00 CME	06/02/2010	10065805A-1	10:58		ICE	5		LEN 5yr 1.00 ICE
23045	011110-jcawley	Build	HOV 5yr 5.00 CME	06/02/2010	10065804A-1	10:58		CME	5		BZH 5yr 5.00 CME
23075	011111-jcawley	Build	LEN 5yr 1.00 ICE	06/02/2010	10065803A-1	10:55		CME	5		ASN 5yr 1.00 CME
23075	B13218-jcawley	Build	LEN 5yr 1.00 ICE	06/02/2010	10065802A-1	10:52	11:06	ICE	5		VNO 5yr 1.00 ICE
23065	B13219-jcawley	Build	MAS 5yr 1.00 CME	06/01/2010	10065801A-1	16:10	16:11		5		BAC 5yr 1.00
23095	B13221-jcawley	Build	MHK 5yr 1.00 CME	05/26/2010	10065753A-1	13:33			5		PTV 5yr 1.00
23095	011112-jcawley	Build	MHK 5yr 1.00 CME	05/26/2010	10065752A-1	13:21			5		PKG 5yr 1.00
23125	B13222-jcawley	Build	PHM 5yr 1.00 ICE	05/26/2010	10065751A-1	13:10			5		MWV 5yr 1.00
23125	011114-jcawley	Build	PHM 5yr 1.00 ICE	04/23/2010	10045723A-1	15:00			5		ARM 5yr 1.00
23145	011115-jcawley	Build	SPF 5yr 5.00 CME	04/23/2010	10045722A-1	15:00			5		KR 5yr 1.00

MAIN ORDER ENTRY

Credit Default Swaps

TRK Mat Term Cpn SNR Restr Bid Offer Amt

Acct Trader ID Line CCP

Speed Entry Complex >>> SUBMIT CANCEL

90345>

Command ACCEPTED.

TRK	Mat	Term	Cpn	SNR	Restr	Bid	Offer	Amt	
						07558QAJ4	03FB NY, 35	BSC NY, 25	
						029043AC1	03FB NY, 35	BTIG NY, 32	11:08:20
							BOA NY, 15		11:08:22
							BOA NY, 15	BTIG NY, 32	04:11:18
							BTIG NY, 32		04:11:21
							JPM NY, 55	BSC NY, 25	01:33:40
							BSC NY, 25	BNP NY, 30	01:22:26
							BNP NY, 30		01:11:01
							BARC NY, 20	BSC NY, 25	03:05:10
							BSC NY, 25	GS NY, 45	03:05:11
							BARC NY, 20	GS NY, 45	03:06:50
									03:06:52

Trading Model Comparison	Central Limit Order Book CLOB	Request for Quote RFQ
Price Transparency		
Pre Trade	Yes	No; but possible
At Trade	Yes	No
Post Trade	Yes	No; but possible
Multiple Participants	Dealer to Dealer Dealer to Customer Customer to Customer	Dealer to Customer
Liquidity	High	Low
'Best Price' Discovery	Yes	No
Execution Cost	Low	High
Anonymous Trading	Yes	No
SEF Compliant	Yes	Yes*
Best Model	Let the market decide	

Compliance with the Act: Access & Transparency

- Unified set of objective rules consistent with core principles of Act.
- SEF obligated to ensure safety and fairness of marketplace.

- SEF Access
 - Should be open to multiple participants.
 - Should be impartial but not 'anything goes'
 - SEF should have right to deny access based on objective standards but still comply with the Act.

- SEF Transparency
 - Customers entitled to best execution: One Price Fits All.
 - Orders and trades displayed on a tape on a real time basis.
 - Customers entitled to see trades as they occur and participate (work ups).
 - Block Trade exceptions above but substantially above 'round lot' trades.

Compliance with the Act: Market Surveillance

- Investor requirement: SEF's must be safe and fair marketplaces in which to trade
- Regulators charged with need to ensure investor safety, fairness and fair dealing
- Market Surveillance:
 - Regulators need data to enforce such fair dealing
 - Price data (order/trade, price, size, executed/not executed, time stamp)
- SEF Data solution must be proactive, not reactive—must act as deterrent to fraud and price manipulation—
- Delayed data link to regulators is reactive, slow and expensive.
- Javelin Solution: Real time data link to regulators that gives, time stamp, direction, amount, size and counterparty for trades and orders.

Compliance with the Act: SEF Risk Management

- Which Model? *Agency-Principal* or *Agency -Agency* Model
- Look to Exchange Model for leadership. *Agency-Agency* Model
- Javelin Measures to ensure to minimize trade failure:
 - Look to listed derivative market experience and trend.
 - Post Trade Measures: Clear rule sets in event of trade rejection
 - Clearing Agreement
 - Give Up Agreement: SDMA version (good symmetrical example)
 - Problem: Reactive
 - Pre Trade Measures: Act before trade problem occurs
 - Trade Day Approval: Daily Trade Clip Size Limits based on incremental margin.
 - Intraday Day Approval: Time Based, Event based.
 - Real Time Approval—Ultimate Goal with Low latency solution.
 - Challenge: FCM's must communicate with SEF on pre trade basis.

Conclusion: Industry & Regulatory Challenges

- OTC Derivatives still represent an unacceptable systemic risk to the global financial payments system.
- Marketplace must recognize that the *Dodd Frank Act* is here to stay.
- Clearing Houses, FCM's, Dealers and Buyside need to work together to address new challenges that affect us all.
- Javelin has already begun to work with certain buyside groups, dealers and FCM's to address new cleared OTC derivative settlement risk, documentation and trade flow issues.
- Javelin would welcome SEC and CFTC leadership to help champion certain industry challenges to ensure the success of OTC clearing of IRS and CDS.