IDX CAPITAL

432 Park Avenue South
Twelfth Floor
New York, New York 10016

T: 212.779.1600
F: 212.779.1613

March 23, 2009

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

Re: File Number S7-02-09 — Temporary Exemptions for Eligible Credit Default Swaps to Facilitate Operation of Central Counterparties to Clear and Settle Credit Default Swaps

IDX Capital LLC appreciates the opportunity to comment on the SEC's temporary exemptions for eligible credit default swaps to facilitate operation of central counterparties to clear and settle credit default swaps.

Background
Founded in 2006, IDX Capital is a credit derivatives electronic trading firm, operating as a FINRA-licensed broker dealer in the interbank market. At the company's core is IDX Live, an order driven, java-based electronic trading platform with full straight through processing (STP) capabilities and a transparent order book. As an organization, we are devoted to providing outstanding service, market expertise and technology to our customers. It is in our best interest to advocate for markets that are open, efficient and characterized by broad participation.

Issues We Highlight

1. Transparency and the Need for Regulation
A recent history of the CDS market provides a clarion call for regulatory and structural reform. The lack of technology and oversight mechanisms that promote transparency led to the hemorrhaging in the credit derivatives market last year. Following the bankruptcy of Lehman Brothers, roughly $400 billion of CDS was presented for settlement, but once all the offsetting bilateral trades were netted out, only about $6 billion ultimately changed hands. The inefficiency inherent in a market that would yield such compression of notional is staggering. This inefficiency is manifested in counterparty credit risk, giving way to systematic default risk. It is ironic that market participants have allowed formation of a trading structure for derivatives that track *bond* default risk where the default of one *dealer* entity threatened to topple the whole system. As a technology firm that matches buyers and sellers of CDS, IDX Capital believes that the SEC must pursue mechanisms that bring transparency and metered regulation to this asset class.

2. Counterparty Risk
Credit default swaps address counterparty credit risk by setting (privately negotiated) collateral requirements for both parties to the swap. However, the terms are not as standardized as they need to be, and no account is taken of the risk externality by which credit enhancement for one deal affects the risk exposures of other market participants. This issue broadly came to light when AIG imploded after accumulating a $500 billion exposure as a protection seller (of CDS). As mortgage-related instruments (reference obligations to the CDS) deteriorated in value, AIG suffered a rating downgrade, precipitating collateral calls from its trading partners. Simply put, these partners, major Wall Street banks, suffered from an escalation of counterparty risk. This issue must be addressed by the SEC and credit derivatives market participants to restore faith, strengthen participation and ultimately liquidity to the CDS market.

3. Centralized Clearing
We strongly support the SEC's recent actions that have allowed for the establishment of central counterparties (CCPs) in the space. By 'mutualizing' counterparty credit risk via a pooled clearing facility and guarantee fund, market participants can mitigate the danger of systemic meltdown. OTC derivatives are by nature prone to creative structuring. There will always be a market for bilateral, privately negotiated swaps, as long as regulators permit firms to trade them. Such bespoke CDS contracts are not fit for participation in a clearinghouse, for danger of moral hazard.

However, with the 2004 adoption of standardized roll dates and the pending adoption of the 100/500 coupon "big bang" changes, index and single name CDS can be novated into two trades and centrally cleared. Our software platform is being upgraded to accommodate multiple CCP destinations both for existing contracts as well as new derivatives going forward. Clients will route bids and offers to be matched via the order book and routed to their selected clearinghouse.

4. Fair, Efficient and Open Markets
IDX Capital is committed to broad market participation, full access and a level playing field of competition – we urge the SEC and others in the CDS market to follow suit. Regulated CCP's should not be 'garden walled', but rather structured for inclusiveness and full access. The more trading partners clearing through a CCP, the deeper liquidity a marketplace enjoys and the more diffuse the systemic risk becomes. Critical to fostering broad participation is the deployment and advocacy of technology solutions – a central belief of our organization. The SEC should promote the use of risk management systems, STP processes and low latency settlement engines. To not provide immediate unfettered access to all CCPs and not offer and encourage the broadest participation within these early clearing platforms is to put systemic risk back into the marketplace.

Conclusion
In sum, IDX is committed to regulation, fair dealing and open, efficient markets. The deployment of clearinghouses in the North American credit default swaps market is in concert with these goals.

Thank you for the opportunity to comment on the SEC's *Temporary Exemptions for Eligible Credit Default Swaps to Facilitate Operation of Central Counterparties*. We welcome further discussion with you, other regulators or any other market participants regarding these crucial issues.

Sincerely,

James F. Cawley
Chief Executive Officer
IDX Capital, LLC