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COMMODITY FUTURES TRADING COMMISSION

SECURITIES AND EXCHANGE COMMISSION

JOINT CFTC-SEC STAFF ROUNDTABLE ON IMPLEMENTATION PHASING FOR FINAL RULES FOR SWAPS AND SECURITY-BASED SWAPS UNDER TITLE VII OF THE DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT

Washington, D.C.

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A G E N D A

Opening Statements by CFTC and SEC:

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Chairman, CFTC

MARY L. SCHAPIRO
Chairman, SEC

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Co-Moderator CFTC

ROBERT COOK
Co-Moderator SEC

JOHN LAWTON
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BRIAN BUSSEY
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PETER CURLEY
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Panel One: Process for Registering and Making Operational Clearing Entities, Trading Platforms, and Data Repositories:

CHRIS EDMONDS
ICE Trust

DAN MAGUIRE
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RONALD LEVI
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GARY DeWAAL
Newedge USA

CHRISTOPHER MORAN
Nomura Securities International

WALLY TURBEVILLE
Better Markets, Inc.

Panel Two: Process of Registering and Making Operational Dealers and Major Participants:

DAN ROTH
National Futures Association

JOHN HORKAN
Bank of America Merrill Lynch

JOHN GIDMAN
Loomis Sayles & Co.

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ALEXANDRA GUES
Barclays Capital

STEVE O'CONNOR
Morgan Stanley

MATT PICARDI
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Panel Three: Connectivity and infrastructure Issues:

JOHN OMAHEN
SunGard

JEFF GOOCH
MarkitSERV

R.J. CUMMINGS
ICE Trust

PETER AXILROD
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P R O C E E D I N G S

(9:19 a.m.)

MR. SHILTS: If everyone could find -- take their seats and we'll get started. We have a busy couple of days. We're still missing a few panelists, but in any event, we'll get started.

Good morning, everyone. My name is Rick Shilts and I'm the director of the Division of Market Oversight here at the CFTC. I'm pleased to open this two-day joint CFTC-SEC public roundtable to discuss phasing the implementation of effective dates for final roles that will be promulgated under Title VII of the Dodd-Frank Act.

We have a full agenda that is designed to focus the discussion on the pertinent issues related to implementation. The discussion is divided into a number of panels, three today and four for tomorrow.

As you all know, the Dodd-Frank act brings the over the counter derivatives under comprehensive regulation. Standardized derivatives will be traded on transparent trading platforms and cleared by regulated central counterparties. There will be increased transparency as information on swaps and security-based swaps will be available to regulatory authorities, and transaction data will be available to the public on a real- time basis. The overarching goal is to reduce risk in our economy, which will greatly benefit the American public.

The CFTC and SEC have issued proposals in most of the rule-making areas. Here at the CFTC, as of last Wednesday, we have substantially completed the proposal phase of our rule-writing to implement the Dodd-Frank Act.

The public now has the opportunity to review the whole mosaic of CFTC proposed rules. To facilitate comment on the regulatory scheme as a whole, the CFTC reopened or extended the comment periods for most of our Dodd-Frank proposed rules for an additional 30 days.

In addition to requesting comment, on the substantive elements of the proposed rule-makings, both the CFTC and the SEC have requested comment on how the various aspects of the regulatory requirements should be phased in, adopting effective dates for the final rules.

The specific purpose of the roundtable panels today and tomorrow is to hear the opinions and advice of diverse interests -- of persons with diverse interests, experience, and points of view on the sequencing of the implementation of the various aspects of the legislation.

Under Dodd-Frank, the SEC and CFTC have flexibility to set effective dates, as well as a schedule for market participants to come into compliance with the final rules. This flexibility allows the commissions to tailor the timing of the implementation of rule effective dates based on factors such as the ability of market participants to develop the systems, processes, and capabilities necessary to comply with the new regulatory requirements.

As a result, the commissions are considering how to phase implementation. Areas under consideration include the type of swap or security-based swap, the asset class, the type of market participant, timing related to the development of needed market infrastructures, and whether participants might be required to have policies and procedures in place ahead of compliance with policies and procedures by non-registrants. In addition, effective dates for certain rules may be conditioned upon other rules being finalized, their effective dates, and the associated implementation schedules.

Compliance also may need to be phased in depending on whether an entity has been previously regulated, or has not been regulated before. In phasing effective dates, we are also considering the interdependence of various rules.

In general, we hope to focus the roundtable discussions on questions related to compliance dates for the following: New rules for clearing entities, the clearing mandate; new rules for trading platforms such as swap and security-based swap execution facilities; new rules for reporting data for swaps and security-based swaps, both to data repositories and for real-time public reporting purposes; and new rules for dealers and major participants.

As you may know, the staff put out -- the CFTC staff put out a list of concepts that sets forth a framework for thinking about implementation. A couple of the key aspects of those concepts are that implementation would be facilitated if effective dates are phased in over time rather than all at once. This means that certain rules or elements of these rules could be implemented at different times, and that the timing of implementation could vary depending on such considerations as the type of product, asset class, or type of swap.

Also, it seems to us that various market infrastructures could be operational -- that is, open for business -- before compliance with various mandates is required. For example, clearing organizations could be up and running to accept swaps for clearing before the clearing mandate is in place. And SEFs and other trading platforms could be listing swaps for trading before the trading mandate is in place.

Our goal is to help focus the discussion today and tomorrow on the factors that should be taken into account in coming up with the most natural sequencing of rule implementation. Before we begin, I'd like to thank the many distinguished panelists today who have taken time out of their busy schedules and agreed to participate on these panels to discuss these important subjects. I'd also like to thank the staffs of the SEC and the CFTC for their work in planning today's roundtables. Staff has been diligently reading and analyzing the numerous comments received to develop final rules that are consistent with the legislation and take into account the issues and costs to be borne by market participants to come into compliance.

We look forward to hearing the thoughts of the participants on the panels. The roundtables will greatly assist us in crafting implementation schedules and effective dates that ensure appropriate implementation of the rules required by the Dodd-Frank Act in the most logical and cost-effective manner.

For the record, I would like to note that all statements and opinions that may be expressed and all questions asked by CFTC staff are those of CFTC staff and do not represent the views of any commissioner or the Commission collectively. Also, I would like to reiterate that the purpose of these panel discussions is to address issues related to implementation, not the substantive elements of any particular rule proposal.

Staffs of both agencies have been reviewing comments received regarding the substantive elements of the rule proposals, and will continue to consider comments in developing final rules. Therefore, in order to ensure that we are able to hear the opinions of all the participants in all the panels schedules for discussion today and tomorrow, I urge you to limit your remarks to implementation issues and considerations. We will remind panel participants who stray too far from the important issues of implementation and compliance.

Now, before I turn it over to my colleague, Robert Cook, for opening comments, I need to note some housekeeping items. I want to point out that this is not the only opportunity for interested parties to have input on these issues. The CFTC has opened a comment file whereby anyone can submit comments related to implementation. The comment file will be open until June 10.

Also, please not that this meeting is being recorded and a transcript will be made public. The microphones are in front of you. Press the button and you'll see the red light. This means you can talk. Speak directly into the mic. When you finish, please press the button again to turn off the mic. And also please refrain from putting any BlackBerry or cell phone on the table as they may cause interference with our audio system.

And now, I'd like to invite Robert Cook to make some opening remarks. Robert?

MR. COOK: Thank you, Rick. Good morning. I'm Robert Cook and I am the director of the Division of Trading and Markets at the SEC. And I'm joined today by Heather Seidel, who serves as associate director in the Division's Office of Market Supervision.

It's my pleasure to join Rick in welcoming you to this joint CFTC-SEC staff roundtable on the implementation of rules to be adopted by our agencies that would regulate the clearing, trading, and reporting of swaps and security- based swaps, as well as the registration, business operations, and conduct of dealers and major participants in swaps and security-based swaps.

On behalf of the SEC staff, I'd like to thank all of our distinguished panelists who are here with us today to share their insights, advice, and recommendations on this very important topic. We are grateful to each of you for taking time out of your busy schedules -- and in some cases, for changing your schedules -- to be here today. And we look forward to hearing your views.

I also want to thank the CFTC for hosting this roundtable, and the staff at both the CFTC and the SEC who have worked tirelessly behind the scenes to make this roundtable a reality.

Before continuing, for the record I also need to give our standard disclaimer that all of my remarks and questions, and those of my SEC colleagues participating in the roundtable over the next two days, reflect only our personal views and do not necessarily reflect the views of the SEC, any individual SEC commissioner, or other members of the SEC staff.

Our discussion today needs to begin with the recognition that implementing the swap rules is a substantial undertaking that presents significant challenges for market participants, including developing new operations, internal systems and controls, technology infrastructures, external connectivity, legal documentation, trading conventions, and compliance regimes.

We are seeking to transition a large existing market that developed outside the scope of any significant regulatory restrictions or requirements to a new paradigm of comprehensive regulation. As regulators, we believe we have a number of tools at our disposal to facilitate this effort. For example, we can adjust the order in which we adopt rules. We can adjust the sequence in which the rules become effective, and when compliance with them is required. And we can take into account differences in products, asset classes, market participants, and the development of critical market infrastructures.

Our job is to sort through the complexities and interdependencies and to determine how best to use our tools so that the transition will occur in a logical, integrated, and cost-effective manner without causing market dislocation or creating other unintended consequences. Clearly, we need your help in this effort.

Rick has done an excellent job in summarizing the objectives of this roundtable, and how we hope it will assist the agencies in developing an effective implementation framework. I want to add just a few brief remarks on where we are at the SEC in terms of proposing our rules for security-based swaps, and on some additional implementation questions as to which we hope to hear comment from panelists at this roundtable or afterwards from interested parties.

First, although we at the SEC have issued most of our rules related to security-based swaps, unlike the CFTC we are still in the proposal phase of our rule-making process. In particular, we are working on proposing rules regarding the substantive requirements for securities-based swap dealers and major security-based swap participants.

Once we have issued all of our proposals, the staff will consider whether to recommend providing an opportunity for interested parties to comment on how all the pieces fit together, just as the CFTC has done. But in the meantime, we have not closed our comment files. And we continue to welcome comments on our rules, even if the formal comment period has expired, in how they relate to each other and to the rules that have been proposed by the CFTC. As a practical matter, this means that you'll have at least another month or two to comment on everything we're doing as we complete the proposal phase and before we adopt any final rules. We are already studying very closely the comments that we have received so far on the substantive aspects of our rules.

Now as Rick mentioned, the purpose of this roundtable is to address issues related to implementation sequencing and timing, and not the substantive elements of any particular rule proposal. But we recognize that to some extent, the choices we make regarding the substance of our rules may affect your recommendations for how we approach the implementation process. We think that is the case. We would be interested in hearing about it.

We also recognize that certain themes that have emerged from the substantive comments on our rules to date might inform how we proceed with finalizing our rules. For example, one such theme is concern over the international reach and effectiveness of our proposed rules, including with respect to the mandatory clearing requirement, data reporting, SEF trading, and dealer registration. We acknowledge this concern, and the request for greater clarity in this area.

The SEC staff is actively considering whether we can address these issues in the context of our adoption of each separate rule that raises international issues, or whether we need to address these concerns through a separate release focusing more holistically on all the international questions that have been raised.

In the meantime, we would be interested in hearing from each of the relevant panels about the extent to which we need to take into account international jurisdictional and harmonization issues in considering our implementation framework.

Another concern that has been raised across a number of rule-makings is that inconsistency between the regulations adopted by the two agencies may impose unnecessary costs and burdens on certain market participants and might complicate or delay the implementation process itself. Once again, we acknowledge this concern. We have worked hard to coordinate with the CFTC staff on our respective approaches to each of our proposed rules, and we will continue to do so.

As we move toward the adoption phase, we would especially welcome input on whether for any particular rules, certain inconsistencies are justified, or perhaps even required by meaningful differences in the markets and trading characteristics of the different products we regulate. And if that is not the case, to what extent do you value consistency over any particular substantive result?

Similarly, given that the two agencies are at slightly different phases in our rule-making efforts, we would welcome comment on potential implications or the markets. If the agencies would move forward with adopting their rules at different times, it's consistency in the timing of rule adoptions as important as consistency in the substance of those rules? How important is consistency in the role compliance states? Again, do different products have different trading characteristics or market infrastructure, such as the stage of the development in terms of clearing, that might warrant different implementation timeframes? Do differences in market participants who trade swaps or security-based swaps warrant different approaches to implementation?

Finally, and with a view to next steps after this roundtable, let me note that we recognize market participants have important decisions to make in determining how best to allocate their resources effectively and build the new regime for swaps contemplated by our rules.

A key input to these allocation decisions, of course, will be how the agency sequences the implementation of the rules. In this regard, I would welcome comments on how we can be most effective in facilitating the efficient allocation and management of resources over the coming years by market participants consistent with the goals of Dodd-Frank. For example, how useful would it be in terms of the overall process for the SEC to set out a game plan that describes with some specificity the order in which we'll adopt our rules, the order in which those rules would become effective, and so forth. In other words, a roadmap for how we will get from where we are right now to the world envisioned by Dodd-Frank. Is such an approach practical? And would it create any unnecessary delay? Or would it ultimately help us to get to the end of the implementation process more quickly and effectively?

With that, let me again thank our

panelists for their participation. The insights you bring will be extremely valuable as we move toward the adoption phase of our Title VII rule-making. And please remember that any other interested party is welcomed and encouraged to submit written comments related to the implementation issues that we are addressing at this roundtable.

These comments will be studied closely by the staff and will help inform our approach to the implementation of our rules. Like the CFTC, the SEC has opened a comment file for this purpose. You will find it -- you will find a link for it on our website by going to the press release announcing this roundtable.

And with that, I'll turn it back over to you, Rick.

MR. SHILTS: Thank you, Robert. Before I go through the agenda to start the first panel, I see that Chairman Schapiro and Chairman Gensler here, I wondered if you wanted to make any opening remarks?

CHAIRPERSON SCHAPIRO: (inaudible)

CHAIRMAN GENSLER: I'll echo Chairman Schapiro's comments to thank everybody on this panel and the subsequent panels. This is really important to the American public as we move through the proposals and ultimately to the final rules, hopefully later this year.

But the implementation to do this in a balanced way -- get the job done the American public expects, but also try to lower the cost and burden so that it's done in a phased way will be very helpful. Thank you.

MR. SHILTS: And thank you. As I said, we have three panels scheduled for today. Our first panel is entitled, Process for Registering and Making Operational Clearing Entities, Trading Platforms, and Data Repositories. It will run from 9:30 to noon, when we will take a one-hour lunch break. We may take a short break during this discussion around 10:45.

Our second panel -- excuse me -- is titled, Process of Registering and Making

Operational Dealers and Major Participants. It will run from 1:00 to 2:30. And then our third panel today is entitled, Connectivity and Infrastructure Issues. It will run from 2:45 to 4:00 today. That will conclude the discussions for today, and on both days we will try to end around 4:00.

So let's get started with the first panel. For panel 1, it will focus on implementation issues related to the process for registering and making operational clearing entities, trading platforms, and data repositories. Some concepts to be addressed include issues related to entities being able to be registered or provisionally registered, and the time required to be operational and assume the basic functions of a clearing organization, a SEF or security-based SEF, or an SDR.

We want to hear views on the timing for implementation of policies, procedures, rules, and systems necessary to begin operations. Should the timing phase in, recognize differences in asset class, type of market participant, rule dependency, or something else? What do we need to consider effectively to harmonize the rule-makings from both a domestic and an international perspective?

And before we begin the discussion, I'd like to go around the table and have everyone introduce themselves and identify who they represent. We'll go this way. John?

MR. LAWTON: I'm John Lawton, deputy director, Division of Clearing and Intermediary Oversight at CFTC.

MR. MORAN: Hi. Chris Moran, Nomura Securities, global head of Fixed Income Operations.

MR. TURBEVILLE: Wally Turbeville, Better Markets.

MR. DeWAAL: Gary DeWaal, global general counsel, Newedge.

MR. PRITCHARD: Raf Pritchard, TriOptima.

MR. LEVI: Ron Levi. I'm representing

GFI Group and the WMBA.

MR. CAWLEY: James Cawley, CEO of Javelin Capital Markets.

MR. COOPER: Adam Cooper, chief legal officer, Citadel.

MR. BRADY: Neal Brady, CEO Eris Exchange.

MR. OLESKY: Lee Olesky, CEO of Tradeweb.

MR. THOMPSON: Larry Thompson, general counsel, Depository Trust and Clearing Corporation.

MR. CUTINHO: Sunil Cutinho. I lead the operations systems and infrastructure team for the CME Clearinghouse.

MR. MAGUIRE: Hi, I'm Danny Maguire. I represent LCH.Clearnet Group.

MR. EDMONDS: Chris Edmonds from ICE Trust.

MS. SEIDEL: Heather Seidel, associate director, Division of Trading and Markets at the SEC.

MR. SHILTS: Okay. Thank you to everyone. And now to start off with the first question, I'll turn to John.

MR. LAWTON: Good morning. For clearing entities, trading platforms, and data repositories, registration and development of applicable rules and procedures would have to be completed before compliance with those rules and procedures by market participants could be required. This suggests a two-step process where market infrastructures are required to be registered and have in place their rules and procedures before market participants are required to use those infrastructures.

If the commissions were to follow this approach, how quickly could each type of infrastructure be open for business? And what are the implications of following this sort of two-step approach.

Let's start the discussion with the clearinghouses, then move to the trading platforms, and then move to the data repositories.

So if someone from one of the clearinghouses could open it up.

MR. CUTINHO: We have a Dodd-Frank compliant clearing service for our energy commodities, credit default swaps, and interest rate swap asset classes. We've been operational for credit default swaps since December of 2009, and for interest rate swaps since October of 2010.

We feel that we have an open clearing service. We have an API, we are connected to three platforms right now. There are several that are currently certifying to the platform.

In terms of clearing members, we have 13 clearing members for both the CDS and the rate asset class. Our clearing members have been operational since the time of the launch. They are also continuously testing with customers. We have cleared both dealer and customer trades.

As I said before, we are already registered with the DCO -- as a DCO with the CFTC, and we have -- and we are providing reports to the CFTC on a daily basis on both the trade level as well as the portfolio margin.

MR. EDMONDS: I think when we look at the opportunity that faces us as an industry as a whole -- and John, specifically to your question -- you know, the impact of the changes while we all have compliant operations today, the question is, can we be compliant tomorrow? And you know, Intercontinental Exchange has a number of different clearinghouses, a number of different asset classes. I just happen to focus on the one on CDS.

I think the industry is asking, you know, regardless of what day you start, give us a date. Tell us who is impacted. Tell us what's impacted, and let us figure out how. And you will hold us accountable to that over time of whether or not we're complaint to your comment about the rules and how they're written.

The difficulty for us -- and the comment was made by Robert in his opening statement -- is, how do we allocate those resources? And where do we start? And right now, it's a little bit like watching an election process and the polls come in. And one day we're going this path, the next day we're going this path. At some point in time, we have to make a decision and allocate those resources.

And certainly for ICE trust specifically, as Dodd-Frank deems our operation, which is currently a limited purpose trust vehicle or a depository institution, will be deemed a DCO come July. You know, we're compliant within the DCO rules as they exist today, but there's a lot of uncertainty about what exists tomorrow. And the sooner we get there, the better.

So if I had, you know, some magic wand or somebody gave me the opportunity to influence the person with the magic wand, you know -- tier one, the phasing approach? I don't see how -- you have no other choice than to go in a phasing approach. My only advice is, let's get started.

It's the uncertainty, I think, that's challenging the market, whether it's clearing members, end users, clearinghouses, execution platforms, SDR. It's all about when do we jump off the bridge together? The sooner the better.

SPEAKER: I also think that -- to Chris' point -- that the phased approach should definitely be done by asset class. Because there's many different individuals around the table that actually have different processing and piping. And phasing in by asset class, I think, would be the best approach.

MR. MAGUIRE: On behalf of LCH Group, first of all, I'd just like to thank both of the commissions for inviting us here to represent our views over the next two days.

And going to John's question, we as a group really split this into probably four categories or four sections. In terms of what are the impediments for us as a registered DCO to be able to offer all of these services across the group.

At a high level we look at the international alignment on regulation. I'll jump into detail shortly. The second one would be around rule compliance and our internal governance and policy approval. Because we have to navigate that through various committees and boards. There are risk perspectives in there as well. And then finally, the operational, technical scalability side of things. So we sort of see it in four categories.

Just jumping into the international side, we think it's critical that the rule-makings are aligned with the international standards. Being a little bit selfish, specifically, with the EU given we have as CCPs both in the euro zone and the UK and here in the States.

Also, we have a product mix that spans both across the CFTC rule-making and, likewise, the SEC jurisdiction as well. So we think it's absolutely critical that the risk management requirements between those agencies are very well dovetailed as best possible.

And then also, when we look at the CCPs such as our limited and assay entity, which is based outside of the U.S., we think if we are clearing on behalf of U.S. Entities 100 percent should be subject to the U.S. rule- making approach and home supervision. But for those transactions and those entities that are non-U.S. executing outside of the U.S. on the home rules, they should be outside of the touch of the U.S. regulation.

Moving on to the compliance and the governance aspects. Inevitably when the finalization of the rules is complete there's going to be some changes required around, for example, membership and the open access side of things. Default management arrangements, potentially around the -- you know, the composition of risk committees, boards, shareholder ownership, et cetera. None of those things are trivial, although we understand and accept that there will be change required around those.

So for us, this is going to require potentially member consultation, ballots, shareholder votes, et cetera. And as I say, none of those are trivial. We accept that we will go through those. But those are not short things that we have to do.

And finally as well, we have to get approval from our local regulators as well as our regulators here in the U.S. So as much as we like to move those things forward as quick as possible, there's a natural transition that you go through.

Just going on the risk standpoint, I think something that's really come to the fore here is the CCPs are going to become more and more important. They're already important, but systemically important, I guess, as we move forward. And you've got to have supreme resilience and security, and that's across all different aspects. That's your risk management framework, but that's technology as well and operational processes.

So we think the phasing has got to be realistic and achievable. We worry that if the window is too small there's a huge amount of what needs to be done via the FCMs. The CCP or DCO is the clients, and all the other infrastructure providers. So a small window is not ideal. We fully support the idea of phasing. We're relatively agnostic, although we obviously have commercial buyers in there, but from an implementation standpoint we're agnostic in terms of -- to Christopher's point, which asset class goes first or which part of the infrastructure goes first. We just need to make sure we're ready.

And I think the biggest elephant in the room, for want of a better phrase, is around the technical obstacles. Building out end-to-end infrastructure for these products. We've got an established clearinghouse, we have 50 percent of the global interest rates, swap market going through it. But these rules are game changing. We're going to see higher volumes, smaller transactions. So the 50 percent we've seen for the last 10 years is probably going to be very different as we move forward when we see the finalization of the rules. So a lot of the processing is going to change.

And we think, with all the end-to-end testing and the sort of choreography between all of the infrastructure providers around the table in the room, it's not a trivial exercise. So we have a patchwork quilt that we need to get through. And we think, you know, that all of these things suggest that a phasing approach is definitely the right approach. And it needs to be a reasonably wide window to make sure there aren't any unintended consequences from rushing.

MR. SHILTS: If I could just ask a quick question. And it -- we're going to have other panels to kind of talk about some technology infrastructure issues. But you talked about the various other -- the window for getting rules and processes and other things in place. Do you just have any -- both yourself and others -- any comments as to what the nature of the timeframe? What are you talking about that would be realistic in terms of an implementation schedule?

MR. EDMONDS: I think part of that's a

function on the magnitude of the final rules as they come out, Rick. So it's a little bit difficult. But I'll take one stab at it.

You know, if I think about the open access requirement that Dan made mention of, you know, we certainly have open access availability today. But if I think about it as it relates to swap execution facilities. Until we know the magnitude of the changes from a risk perspective, when are you going to guarantee the transaction? Is the transaction guaranteed at the point of execution? Well, if it's guaranteed at the point of execution the lift that the clearinghouses will have in order to submit or to accept that information and give the response back to the market participants is significant.

And you know, the more prescriptive you are in the rules or the commissions are in the rules, the more potential risk associates with that -- is associated with that risk horizon or that time horizon of implementing those risk filters. But without those risk filters the amount of danger that we as a CCP are taking at that point in time is not a level that we've been comfortable with in the past, and I think it would be difficult going forward.

And that's not what we were looking to accomplish as an industry. You know, the legislation was not there to increase the risk, it was there to decrease the risk over time and increase that transparency.

So if we look at that without establishing what the obligations of the DCO are, the transparency requirements of the SDRs that come around that. And then when you get to the execution piece of it, how the execution facilities plug into that infrastructure? I do think when you think about sequencing that you have to put it in that direction. Otherwise there will be a number of unintended consequences that you have to deal with, notwithstanding those that may come voluntarily over time.

MR. CUTINHO: I think to add to what Chris said, there are some rule changes that are in progress. For example, segregation. Those we do need a lot of time to analyze them.

In terms of risk monitoring in real time, we feel that a clearinghouse should provide real-time monitoring of risk at the member level. And it should also provide its clearing members the opportunity to monitor risk for their customers. So, we believe -- so the service we've built is real-time clearing service so that it can respond in real time based on the risk or the limits that we have placed on the system. So to the extent that we can respond to the platforms or market participants in real time, we believe that the system will be safe.

Now it's not possible, as Chris pointed out, to apply guarantees further upstream because there are a lot of SEFs in place. And as a clearinghouse, it's a point of convergence. That's the place where all transactions end up. So the best place to -- monitoring of credit and monitoring of risk is at the clearinghouse.

MR. SHILTS: Do any of the other

participants -- sorry.

MR. MAGUIRE: Just from the LCH Group standpoint, there's -- specifically to the question around timing and what are the real key things, I think it's pretty well understood by the industry. There's obviously this gap between when the rules are proposed and the finalization of the rules. Until we have finality it's going to be very hard to put a number or a date on that. So I just echo CME and ICE's perspective on that.

But when I look at what are the key kind of rules that we need some high level of prescription and definition on, whatever they may be, it's really around the risk requirements. It's the account structure side of things for some groups. Even across ECPs, we've got different levels of capability around different types of segregation. So, there's the account structure.

There's the governance and sort of board composition and shareholder side of things. And then, there's the open access -- the membership requirements. Those, for us, are some of the key items that we need finalization on.

Once we have a -- you know, a final statement on that, it's going to be easier for us to predict how far from that. But those are probably the key points for us.

MR. THOMPSON: Hey, John. You mentioned that some of us have some other views. We do. And the order of implementation, I think, is key to answer some of the other questions that you just raised.

And I'd like to start it by saying we should go back to front. Start off with the implementation of the swap data repositories, then on to your SEFs and to your CCPs.

You need the trade data to really make sensible decisions about some of the other issues that have been raised so far today. You need to understand what the cleared open interest will be, and the kind of liquidations that may give rise in order to understand the extent and the restrictions that ought to be put onto the marketplace. And also, what the CCP liquidations are going to look like.

Within each level of processing, the implementation should be sequenced by asset class from the most electronic to the least. So that you would probably start with credit first and rates, and so on in that order. Commodities probably should be the last, given the high percentage of end users to end user trades. In fact, that it's less electronic in that respect.

To reporting. Regulatory reporting, obviously, in our view, should be done first. And the focus should be starting with a very granular level of trade reporting and the flow of that. We believe that at the very beginning, you have to have very good rulebooks. Those rulebooks have to be put in place before you can start all of that. So that, you know, you have a very clear understanding of what the rights and obligations of all of the parties, you know what all of the connections are, you know what all of the reporting will be. And you got to make certain that you get complete buy in by all parts of the industry.

And from the SDR standpoint, in order to get the best information you have to have all of the trades reported to the swap data repository. You cannot have cherry-picking going on. So from our standpoint, if you want to look at it, let's start with the back and build the back end so that you have transparency to answer some of the questions that I think have been fairly raised by some of your other users.

MR. COOPER: If I can just make a comment or two in support of some of these comments that have been made.

First I think, critical to all of this is there be a balanced and inclusive sort of membership composition of the governance committees that, as was mentioned earlier, will need to sit down at the CCPs and make some of these rules and hash through. I think this is an initiative where all stakeholders need to be fairly represented around the table in order to have the most robust input.

A phased implementation and a rational sequencing, of course, makes sense. And I concur with Larry's view that there's tremendous data that exists today that will help inform the asset classes that can be phased first. And I would suggest those for which the infrastructure already exists today. We've heard, like with CDS and the CME and rates products, there's much of that infrastructure that's already built. And in addition, that information will help inform what participants are included in sort of the phase out process.

The last point I'd make is that in the context of the implementation and the sequencing, I don't think that we need to do sort of a serial back to front end, necessarily. I think, in fact, we can multitask. And that a number of these processes can proceed in parallel.

And the final point I'd make isn't in connection with any kind of rational sequencing. Let's just make sure that there are objective and measurable milestones. With everybody around the table -- there's on-boarding and there's testing to ensure during the phase-in period that everything is working just fine.

MR. COOK: Adam, can I just ask if you could elaborate a little bit on your point about multitasking and phasing and parallel? Can you give us a little bit more color of what you have in mind there?

MR. COOPER: I would suggest -- I mean, I'm sort of responding and supporting Larry's point that swap depository -- you know, repositories are very useful. You know, instead of doing it let's do it back end to front end.

There's a lot that can be done in terms of establishing the integrity of the reporting system and the information available in the data repositories. Disseminating it to the market while at the same time, for example, ensuring that there's inclusive and sort of robust composition to the membership and the risk management and the other critical committees at the clearinghouses. As the rules for compliance and segregation and all of the necessary components for product roll out are sort of being digested by the marketplace -- these committees and user groups, advisory groups, dealers, end users, you know, a variety of the stakeholders -- can be actually rolling up their sleeves, sitting down, and doing the hard work.

Let's talk about, you know, getting the agreements -- standard form agreements that the industry will need in place at the same time that we may be finalizing rules and identifying what sequences of asset classes make the most sense. We can put agreements in place, we can do a whole bunch of work in terms of -- I know it's a later panel -- connectivity of potential clearing firms and CCPs can be undertaken. It's not reinventing the world. A lot of this technology and a lot of this infrastructure already exist. So let's take advantage of it.

I think the key is in sort of identifying milestones, you know. And criteria that will measure success or failure or, you know, need to work harder at this. And as an industry, as a community of all stakeholders, you know, sort of let's be critical about whether we're meeting those milestones.

MR. BRADY: Yes, I just have a few comments to, you know, support some of what Adam said and some of the earlier comments. And also, to Chris' point earlier.

I think there's a whole lot of readiness out there. There's a lot of work that's already been done. I mean, I think just from the trading platform side, you know, there was a showcase here where there was a number of platforms that showed that a lot of investment has been made. There's a lot of platforms already operating in this marketplace that certainly need to be retooled and fitted to meet the mandates of Dodd-Frank.

But I think the idea of a hard date, of taking the uncertainty out and also providing that -- you know, the game plan, the road map that was mentioned, I think, would be very, very important to really catalyze and focus the energy of the industry. And I think there's a pretty broad consensus that clearly this has to be phased. And it would seem logical that you'd focus on the most liquid contracts in the CDS indices and rates, places where either they're already being cleared, there are already platforms, there are single-dealer platforms, multi-dealer platforms. You know, platforms like Eris Exchange, which is a futures exchange which trades a, you know, standardized interest rate swaps. I think the industry is ready to go and waiting for that hard date.

The other point I would make is to say that in this, I believe there needs to be a certain amount of flexibility provided in the process. You know, in Eris Exchange we were able to apply for a DCM and were a company that -- you know, a new start that was formed a little over a year ago. The rest of the -- majority of the players are already existing platforms and organizations. I believe it's possible to put the rulebooks and the correct, you know, documentation in place if there was an approach that allowed, perhaps, provisional registration. You know, subject to meeting the -- what's put in the rulebook and in the rules. And then watched over closely. And there was an open for business date of -- you know, it's been thrown around -- December 31. Get the registration done by then, but then watch it over close. I think that would be very, very useful.

MR. CAWLEY: Yes. I would like to echo and agree with some of the comments Neal and some of the other guys have said.

You definitely need to have a specific date to which we can work towards. We need to know where the goalposts are. That said, it seems to make sense that you need to have some type of, you know, graduation into the process. Wading into it too tight and it creates a chaos, too long and you have the manana effect where it never gets done.

We also need to be mindful that we're two and a half years past the financial crisis.

And that's, you know -- there has been considerable infrastructure built by some in that period that's ready to go. And there are others who are quickly and deliberately moving towards those goals as well.

So again, you need a date. You need a period in which to graduate the market into that. But you need to be mindful that if it is too long, it could have negative consequences.

Talking about consequences, you need to have negative -- you need to have some type of carrot and stick. If you don't get -- if an entity doesn't comply with in the given timeframe, you know, what are the consequences? Are they allowed to clear, are they allowed to trade? I mean, you should really take a very black and white view to that. You're either in and ready or you're not.

MR. MORAN: And just on that -- on the regulatory capital implications that would happen in the event that you were not to clear certain swaps. Because I think in doing so, that would actually allow for dealers and clients to understand what the implications are.

I think a lot of infrastructure has been built. I think we're just waiting for that last 10, 15 percent to build out on certain things, such as segregation. And a lot of the additional functionality that needs to exist. But until we have some clarity there, firms on the dealer and client side are looking to allocate resources. And right now, I think without having that date and without having the regulatory capital implications it's difficult to understand, you know, what the penalties are for not clearing.

MR. TURBEVILLE: I think it's -- as the one entity that's not going to profit or lose particularly from how this comes off -- public interest is our business.

One of the questions -- one of the observations is that there's a lot of discussion about you've got to phase, got to -- but also from the public's perspective, the public doesn't understand necessarily the differences between the various organizations. For instance, clearing. You're either clearing product now or as you sequence additional product that you clear that's in your control. So you can control how you phase in your business or not.

It would seem to me that as we talk about how to do this asset class by asset class, or whichever plan is discussed, we need to really talk about the sequencing in a three-dimensional way. How does it work with matching data and clearing? And it would seem to me that the focus really has to more go to the matching side in terms of sequencing and how that works. Because the clearing side will operate -- will phase in itself. And the data side would presumably as well.

In terms of sequencing, what gets matched out there and how it gets matched in the market might be the way to think of it. And as the leading indicator of how things get sequenced. I just wonder if you think that's true. That's a --

MR. EDMONDS: Personally I think I'd disagree with you there, Wally. Because today when we control out destiny we control our destiny because there are commercial reasons and we make the decision to allocate the resources that way. The other side of the implementation of these rules may not be in the same manner. And it may be mandated -- it certainly seems like it will be mandated that we are required to clear certain products at certain points in time.

MR. TURBEVILLE: But only if you seek to have them mandated, right?

MR. EDMONDS: Okay. So if I have a business today and I'm clearing credit default swaps and they're mandated to be cleared tomorrow? And I need to expand that to five other pieces of the credit default swap market, today I control that timing. I may not control that timing tomorrow. That's my point. (inaudible) or jeopardize pieces of the business.

MR. CAWLEY: Can I ask a question? What kind of timing are the commissions considering?

Are we looking at days, weeks? Or are we looking at years or months?

MR. COOK: We thought you had it done already.

MR. CAWLEY: Well, we're ready to go.

MR. COOK: I think that's really the purpose of this roundtable, is to launch a discussion about what is the reasonable timeframe. Obviously we want to -- and how do we get there in the quickest and yet most practical, cost-effective way? So again, speaking for the staff, we don't have a fixed -- on the SEC side, we don't have a fixed timeframe in mind that we're trying to get you to guess at or confirm. We really want to hear what you guys think would be the best way. How would you think about it if you were in our shoes.

MR. SHILTS: And I guess just from our standpoint, we did put out these concepts and did throw out a date to say -- the end of this year. So something, you know, that might be reasonable or something to think about in terms of your comments.

MR. CAWLEY: Well, I'll say, you know, from where we sit as an execution venue hoping -- or expecting to apply as a SEF, you know, we're looking at our clearinghouse counterparts and connectivity into those. And then, you know, once we get connectivity into those, you know, how quickly can we get a trade confirm back with the CME, with LCH, and with ICE and others.

We're certainly prepared and have the capability to give a real-time, you know, trade execution message to the CCP. We'd like to receive that message back in real time. We think that that goes a long way to trade integrity, and you know, decreasing settlement risk in the system.

MR. LEVI: The IDBs work every day with many technologies and many protocols. And just on your last point, we already have certain areas and certain asset classes where we get more or less real-time confirmation back from the clearinghouse. Actually, commodities, what we think is probably the one where there's the most infrastructure as opposed to the least infrastructure.

The point is that each asset class, each market does have different protocols and does have different technologies attached to it. It's very important that we don't come out with a one-size-fits-all regulation, and even timing for when the rules come into place. We certainly agree that a phased approach on an asset class by asset class basis is the right way forward. Although, once again, I would probably argue with Larry as to which should come first.

Larry mentioned CDS as being the primary mover. The issue with CDS is, at the moment it's going to be -- there's going to be two sets of regulation. So harmonization between the two sets of rules is absolutely key. If you think of it, those things are traded on a platform today with an index price and a single name price. If we had to develop two platforms with two different sets of regulation, I think that would cause great dislocation.

On the subject of dislocation and harmony, it's important that there is harmony with other international jurisdictions. It's very easy for hot money, for hot liquidity to flow from one marketplace to another. We've seen it in the past. And I think that's a very real threat.

I'm not suggesting by any means that an entire marketplace will up and leave, but the marginal liquidity and the marginal trades will certainly go to where the regulation is most conducive to trade.

I did very much like Adam's suggestion of standard form agreements. I think there's going to need to be many of these between clearinghouses and SEFs and users and clearinghouses. And I think as soon as we can get to work on some of those and set those, that will help things greatly.

We've spoken about interim registration of various parties. We believe a shelf registration may well help things whereby there's a fear, irrational or not, of being a SEF or being a swap dealer or whatever else. And the fear is that if you become a SEF when all your other competitors are not SEF, you may lose out business because it's so prescriptive it hurts your business.

What we think may work is if we can apply, we can be given registration. But then it's up to us to activate it. Maybe you give us a short window so that when the rules are right or when everything else is ready we can push the button and go.

MR. PRITCHARD: Hi. As a swap data repository provider, I'd like to follow up on some of Larry's points. But obviously as a swap data repository provider we agree with that.

I think both the chairman and the moderator started out by saying that the topic today is really the sequence and the timing of the rule-makings and their effectiveness rather than the substance.

And I think we would agree that getting

the data collected into one place where it hasn't been centrally collected before would be a huge asset to the remainder of the process. And we can see that, you know, a lot of the discussions later are about phasing in by a different category, such as asset class and type of market participant. And I think a lot is known about the ODC swap market. But it is also true that there's more to be learned once we get this data in. We'll definitely be learning more. And you know, some of those categories refer to what you might think of as the structure of the OTC swap market. And I think, you know, there are other aspects to that. You know, there's the customized standardized dimension, there's buy side and sell side. There's a level of market exposure, there's bilateral versus centrally cleared, collateralized versus non- collateralized. There's a huge amount of information to be gathered, not just about the line items but about the structure of the market and the benefit of getting all that data into one place and cleaning it a little and looking at it.

It's not to be underestimated, to the whole of the rest of this process.

And so we strongly agree with Larry's comments about benefit of putting relatively -- timing and sequence of swap data repositories up the ordering.

As also, you know, just getting a cut of the data, getting the noise out of the data, cleaning up what is housekeeping events from what are true price forming and risk events. Doing all of that, an initial cut that, on the data, will help answer a lot of these questions that are much more substantive to the ordering.

MR. TURBEVILLE: Just to clarify, it sounds like what both of you are saying is that there's a sequencing associated with swap data repositories. Which is getting the data in, cleansing it or ordering it, and analyzing it. Dissemination is maybe a next order event in terms of -- which quite interests us is, how information gets disseminated to the marketplace. But the first stage in terms of data is capturing it, looking at it, and making some sense of it. And then dissemination is a next stage event.

MR. THOMPSON: Well, what I would say is, what you have to have is the regulators have to understand the qualities of the marketplace. So regulator transparency into the market, which is what I and what Ralph was just talking about, are key to understanding that first. And then making decisions by the regulators as to what should be disseminated to the public clearly would be something that they would then be in a position to make.

But a lot of the decisions about the qualities of the market, what should be cleared, what is liquid, what is not liquid, how easily you're going to be able to handle liquidations in this marketplace, to go to the issues that Chris raised earlier about what additional risks they're taking on, the understanding of those things all relate to having good data. And I would agree on the issue of harmonization, that you not only need harmonization among the commissions, which is critical. But you also need international harmonization.

This is a global marketplace. And the information is going to come from many different areas. We and the trade information warehouse already receive data from 90 different countries. And you want to continue that if you want to have a view as to what the marketplace looks like. You don't want to fragment that.

So it's critical that we look at the issues of harmonization, not only among the commissions but clearly among the international standards. And therefore, you need to look at what are the international standards that are going to be governing this?

What I would suggest is, you look at CPSS-IOSCO, where the SEC is co-chairing a group looking at this very issue. They've come out in May of 2010 with some preliminary standards. We think those standards are very good. We think those are the standards that should be met by at least swap data repositories, if not other clearing agencies that they'll be coming out with. Because there's an international flavor that deals with risk and those issues there. So, we would suggest -- and by the way, we think the commissions in that rule-making are taking into account the CPSS-IOSCO rule-makings in what they're coming out with. It's somewhere in the details.

And what we would suggest is that what you really want to do is, you want to get the information flowing to you. You don't want to be so prescriptive the first time around that the information doesn't get to you because it's going to take a long time to implement that exact rule. That you come up with something that's general enough where the information will get to you, and then once you have the information and are able to study it, then you can write a more specific rule as you get closer to it. And we would suggest that, you know, that is an approach that you might want to take.

Thank you.

MR. SHILTS: Could I just make a comment? And then a question related to that.

And I guess I would definitely agree that for implementation of certain of the mandates in Dodd-Frank, that having good information is essential, whether it be for real-time reporting or mandatory clearing or the trade execution requirements. But I think what we're trying -- thinking about here is, is that necessary to be in place before we go ahead. Kind of people talked about a parallel path, and having procedures and rules in place for registering for clearing organizations or for SEFs to trade swaps. Not necessarily to have the mandates in place, but to provide some certainty -- as was mentioned about, you know, everybody wants to get going and know what's -- to try to minimize this time lag before you have all the SDRs operational and the data in place to have kind of on a parallel path where entities can come in, be registered as clearing organizations and SEFs for trading swaps, but not necessarily the implementation of the various mandates.

So, just thoughts on that.

MR. OLESKY: Yes, if I could just make a comment on that. When it comes to the phasing and timing of different things, I would echo what someone said earlier about having some certainty on these timelines is critical in terms of us being able to efficiently allocate our capital. But we think about phasing and timing at Tradeweb, we break it into three groups. We have our clients, we have our own technology, and we have what we think is a registration readiness mandate.

And if we look at each of those three components and we think about which one should go first, which one can we be ready for as early as the end of the year? We would agree that the registration process is the one that could open things fairly easily.

And I think in support of that, we think that, you know, market participants will gain from having that certainty as to who the SEFs are, who the central counterparties are. And it will allow this ecosystem to start to develop, too, from a technology standpoint and a readiness standpoint to tie into these central hubs. Because in a sense, the SEFs and the central counterparties are the hubs here, and that's the first thing to move.

When we look at our client readiness, you really have to bring in -- and we're going to talk about this later and the clients themselves will represent it -- you're talking about clearing readiness, really, is I think the big stumbling block or the big challenge there. And that's on a different path. And that, I think -- that's going to take quite a bit longer.

Technical readiness for the SEF really will be based on when we get finalized rules. So, that's one -- it's hard to comment on not knowing exactly what the final rules will be, but I think that's a relatively easy thing once we know what the rules are.

But just to reiterate, registration readiness we think is something that could be in the early phase.

MR. CAWLEY: Yes, I would echo Lee's comments. Really the central hub is clearing and execution together. And you need to get each one of them up and running, and then you need to make sure that they connect and that they comply with the open access provisions of Dodd-Frank and so forth. And leverage whatever technology infrastructure may or may not exist, and then go from there.

But I think the key really is -- with all due respect to the SDRs here -- it really is margin and clearing and then execution. Perhaps a parallel track on trade reporting on a post-trade basis. But really, the key here is linking the clearinghouse to the SEF.

MR. DeWAAL: Just a quick comment. Depending on the view of what open access is and how diverse should be the number of clearing brokers at clearinghouses, obviously it's very, very important for firms like ours to know whether we're even going to be invited to the game. So for us it's critical to understand what the membership requirement is going to be, so that rules related to membership requirements are obviously, to us, the most important thing. Because if we're not invited we're not going to invest in the technology. And I think as some people have said, and you'll hear later on, the devil is in the details. It's not quick and easy and it's not cheap to hook up. The more SEFs, the more decisions that are going to have to be made by brokers like ours as to who to connect.

If there's a date that's relatively quick, it's going to be very, very difficult to do it. There was some suggestion before about encouraging things before they were done. I think that's a great idea. But again, to us first and foremost, we need to have certainty as to whether we're going to be invited to participate.

MR. MORAN: The only thing I'd add to that is, I think -- obviously there's been a lot of discussion around the connectivity and clearing. The one part that I think we might have overstepped is the legal entity aspect where most firms -- especially in most of the bank holding companies -- are derivative booking entities. So, how does that actually come into play with regulation of registering as a security swap dealer from a foreign company, who actually -- how that comes into play with derivatives that are booked with non-U.S. counterparties within that entity. And to be honest with you, that will really drive a lot of inter-company trades and between different affiliate trades. And it becomes actually more of an issue around how we actually manage our derivative books today. Most dealers -- the derivative portfolios are managed on a global booking basis.

MR. MAGUIRE: I think just going back to the sequencing. I think you are sort of touching on two of the key facets of Dodd-Frank here about systemic risk reduction on one hand, but also about fair open transparent markets as well. And it depends what you're solving for first, I guess. I decision needs to be made. I think we'd like to solve for everything at the same time, but in terms of sequencing it's not going to be easy to sort of draw a line through that.

And I'm going to agreement with quite a few people and disagreeing with quite a few as well, I guess, on the SDR side. You get a picture of what the data is. But I guess my question is, what do you do with that, then? What do you actually do with that if another Lehman defaults or something along those lines happens again? From the clearinghouse standpoint, by definition we deal in good data as well. We have to have good data because we risk managing the book. And if there is a default of a client, a clearing broker, or otherwise, we sit behind that data and we risk manage it and we trade execute hedges on why into position and put markets back to an orderly state.

So, if you're solving for systemic risk reduction, I think really the clearing mandate is probably primarily the one to go with first.

Obviously, connectivity with all of the other infrastructure providers. Whereas if you have more of the fair open access, which I think we have to solve for all of these things, is a probably slightly different answer.

MR. COOPER: Can I just maybe try to add a little more, I guess, flesh to the bones of what this implementation would be?

First, just as to the SDR comment. I don't want to forget, there's a lot of data that's currently available -- historical data -- that can easily be mined and be incredibly useful in helping sequence and understand product classes, participants, et cetera.

A couple of comments have focused on, you know, we need to know what the rules are. And we need to know what the data is. And of course that's critically important. But the rules will be finalized. I mean, thanks to the enormously hard work of CFTC and SEC staff, I think we're relatively close.

What we can start focusing on is a sort of a T+ regime. T being date rules are finalized. Even before rules are finalized, as I suggested before, by side dealers, clearing members, industry associations can sit down to try to complete industry documentation. Standard form templates. T, the rules are finalized. Everybody can kind of leap into action, understand what they need to be doing.

Within a day that might, you know, be T plus 180, CCPs and others can work to implement so that they're fully compliant with the final rules that have been released. What does that mean? Open for business. What does open for business mean? It would be all the things that we've talked about that Dodd-Frank requires. Open, non-discriminatory access for clearing of trades, real-time acceptance of clearing of trades, and indemnity between clearing members. All of these things can be done sort of between T and T plus 180.

During that same period of time, I would propose, there could be publication of phase in mandatory 1, sort of cleared products based on a lot of the information we're able to mine from the

SDRs that exists right now as to what are the most liquid instruments that have historically been traded.

You can move towards, then, preparation for kind of a voluntary clearing launch, if you will, that would take place let's just say between day 180 and day 240, where dealers and buy side are permitted to voluntarily clear these products to ensure testing and working to identify approved clearing member -- enter into all required legal documentation. Work to become, you know, fully operational. All leading towards a mandatory clearing date. And there may not be a big baying one date for all products, but a phased in date which, if we have sort of rule finalization by July 13, could be as early as March 1, I propose, 2012 for mandatory clearing.

And whether or not those are the exact dates and the exact sequencing -- this is sort of not reinventing the wheel here. There is a way to devise a project plan that is rational and sequences things with all relevant stakeholders around the table. And I think that's, in fact, what the questions you're asking are driving towards.

MR. TURBEVILLE: Can I just ask the regulators a question? The way I understand it is that with clearing and the mandatory clearing thing that occurs, is that everything that's being cleared now is being deemed to be submitted for mandatory clearing approval one way or the other -- deemed to be. And so there's a process that's going to happen where the -- you'll decide whether items are being -- are going to be mandatorily clearable or not. Those items will have already been cleared and the systems for clearing them are going to be there.

When the mandatory clearing decision gets made, what will happen is nature will take its course and the rules will require a certain kind of matching of buyers and sellers on those instruments. So, a lot of this really does have to do with registration and approval of rules and getting rulebooks in place. And sequencing will be perhaps more organic than has been suggested in a lot of our discussions. And I'm sure, including mine. I'm not saying I had it right.

But it just occurs to me there's an organic element to this that will occur. Do you see that to be sort of true?

MR. LAWTON: I think so.

MR. OLESKY: If it's okay, I wanted to go back to a comment Robert Cook made at the outset about the consistency of timing between the agencies and how critical is it.

If we're talking now about sequencing in and we put forward the idea that registration is first, that's perhaps a first thing, year in kind of thing. And you asked the question, how important is it for each of the SEC and CFTC to have the same timing? And I think that that is -- I mean, there's a lot of issues here, but that is a very important issue in the event there's differences.

So, if there's no differences, actually timing is not as important. If there are differences, timing is very, very important because, you know, when you're running the business and you have to decide, okay, do we invest in this technology, do we get ready for this structure, not having it happen at the same time if there's differences makes it that much more complicated to implement. And frankly, that much more costly.

So on the timing between the agencies, I'd say, you know -- we would be in favor of as few differences as possible. But in terms of registration, if it's the same, the timing is not as essential. If there are some differences it becomes a big cost factor and a management challenge.

MR. LEVI: In terms of data for the SDRs -- and back data that Adam mentioned. The WMBA would be very happy to make our data available to the potential SDRs.

I think you'll agree that the back testing of that data will give us clues as to which asset classes may go first, which contracts would be available for clearing, how long that that would take you. However, the flipside of that is that it's important that once things are made available for clearing that all the front end, the trading -- the different trading technologies and the different trading methodologies -- get to start at the same time. The worry would be that the clearinghouses that do have the vertical silos push it towards themselves first.

It's fairly important that the SEFs get the same recognition and the same timing as the DCMs.

MR. LAWTON: One question on the clearing side. People mentioned a number of different things that may raise issues, and I'm wondering which aspect of the proposed clearing rules probably creates the biggest obstacle to an open for business date? Is it, for example, risk management issues? Is it open access issues? Is it client clearing issues? Is it connectivity with other platforms issues?

Is there one? Or is there any sequence? Which would you say is the hardest?

MR. EDMONDS: You know, for us I don't think it's the rulebook. I don't think it's getting the rules set. I mean, certainly once the final rules are published by the respective commissions I think we could respond very quickly to that. I think there will be some time in digesting that for the industry. I mean, a number of participants today have talked about the right documentation existing between clearing members, CCPs, SEFs, you know, the governance structure around that. But, you know, we can't even really begin that in earnest until we understand the magnitude of the proposed rules.

So assuming that we could get those things done, certainly the risk management issues and the level of prescription that you're going to put around the risk management protocol could have potential impact. Don't know yet because don't know where we are on the final rules. Some of -- you know, we all have different flavors of it.

And we would all sit here and represent to you that we are compliant and we are very happy with the way we run the book and how we sleep at night on that front.

If I look at the other client access side, certainly I think it's been official for all of the CCPs to have as many customers as possible. So there's no lack of desire to open up that universe to the largest group possible. However, under what terms? What I mean under what terms is, you know, again how prescriptive is that going to be? Dan raised earlier the idea around individual segregation and what that would mean, Sunil as well. And understanding the impact of that business.

I mean, certainly CCPs have developed over time based on, you know, certain industry protocol that existed, some borrowed from the futures business, some borrowed from, you know, prime dealer relationships that existed over time to get to kind of the best in class. If we're going to significantly impact that with the rule piece, that then also has unintended consequences potentially of impacting risk management structures -- default waterfalls Dan raised earlier -- you're talking about a magnitude of change there that will take a little bit longer time than something as simple as rulebooks and the right level of documentation.

I don't know how we can give you a more complete answer until we know exactly the level of magnitude you're envisioning.

MR. THOMPSON: Again, though, it strikes me that what you're talking about is information and information -- data mining. Very much what you mentioned earlier. That obviously there is a lot of information right now that's available. But there should be even more information that's available, and with the development of the SDRs and putting that in the proper sequence, you can make the right decisions about what should be, you know, the compromise together with the SEC, the CFTC, as well as going to the international regulators and making certain that they have the same information available so that you don't have a situation where you're going to have different rules for different parts of essentially the same clearer doing different things because there was a lack of information and a lack of knowledge about the risk tolerances and the risk structures of that particular asset class.

So again, it goes to the issue of putting the back first, developing that, making certain that that information is rich, that information is useful to all of the regulators, it's in place, and that that can be put in place relatively quickly. There's no doubt about that. That form a standpoint of right now, we've been working with buy side as well as sell side on a structure. Where all of them would agree to -- you know, where that information would be available to regulators not only here in this country but obviously internationally as well. Because it's a global marketplace.

To make certain that the right decisions are made in a timely fashion, and that you don't have a situation where a market player would not necessarily be able to make the right decisions about allocation of their resources because there was wrong information that was given to them.

I just think it makes sense. I think Ralph, you know, would agree with that point.

MR. CUTINHO: From the clearinghouse's perspective, I think we want to make two points. First is that when we decide to clear something we are taking very informed risk management decisions. So, a lot of things go into that decision and an analysis of the liquidity of the product. We also work with our member banks to decide how the product will be liquidated, not just by us but by the members themselves. If one of their customers were to fail -- to the member. So a lot of this analysis goes into deciding whether a product should be cleared or not.

So, we don't believe that, you know, data should be in an SDR before clearing has to be done. Case in point as empirical evidence. So interest rate swaps have been cleared for a while right now. And we've also started providing clearing services for clients. So, that's the testimony. We have also sustained shocks from Lehman, and a lot of other shocks over the last seven to eight years, you know, clearing these products.

In terms of what is the most challenging for a clearinghouse? Operationally, I think we are ready. We are ready to receive the trades, we are ready to respond in real time.

From a risk management perspective, we have risk management in place as well as a waterfall process in place. We've come to the CFTC for an approval for these products.

I think, as Chris pointed out, it's -- you know, the changes in the segregation model is something that will affect the balance. So as far as that is concerned, you know, we would need more time to analyze those changes. And those could have an impact on the margins or on the default waterfall.

Thanks.

MR. MAGUIRE: From the LCH.Clearnet Group's perspective, segregation is something that we already lie with in Europe, so it isn't a challenge for us to offer that. It doesn't really change a great deal in terms of implementation for ourselves.

But in terms of the key rule-makings that are the biggest impediments, I think it's to John's point. The DCO risk requirements, which is all-encompassing, really. There's the member or the open access to the membership requirements and the associated restructuring and default management processes around that. That's probably the key thing for us right now.

And I think another thing, there has been quite a thread throughout the conversation around trade registration. And there's points about real-time registration. I think if you think about what the clearinghouses are supposed to do, it's take risk out. It's reduce risk.

So we have an approach and a policy whereby we take trades in, will confirm back to the execution affirmation platform immediately that would receive those that they're good trades. But putting us on risk without calculating the incremental risk, making sure the collateral is covered, is not something we would advocate. Maybe it's different from other traditional markets, but we think we need to know what our risk is and have it covered before we confirm it back.

So, CCPs have got to work to compress that time frame. But I wouldn't advocate execution equals clearing, because that puts clearinghouses at risk, essentially. And that's not really the intention, I don't think, here.

MR. COOK: I'd like to tie some of the comments about risk and needing clarity on some of the rules of the road back to something Chris said earlier about dealers needing to pick which entities to book it.

So we've created a little bit of an artificial distinction, just as a practical matter, by dividing into two panels. You know, we have this panel is mostly about SEFs and clearing agencies and SDRs. And the panel to follow will be more about dealers and major swap participants.

But I think Chris was making the point that the dealers need to know maybe about what the capital rules are, other rules are, to know which entity they're going to use as a booking entity. And I'd like to know whether -- and that, in turn, could affect the rollout of clearing and SEFs.

I'd like to hear from both the clearing side and the SEF side. If you're hearing that when you talk to your clients about -- and customers about the implementation phase in, and if you agree that that is part of the puzzle that we can't view the market infrastructures entirely separate from the rollout of the dealer rules.

MR. CAWLEY: Yes. From a -- you know, from a market intelligence standpoint, we hear anecdotally all the time from customers who are looking at CCPs right now and deciding where to put their portfolio. And there seems to be, you know, solid negotiation going on there, as one would expect. But there is a disparity there. And it needs to be cleaned up before you move forward, certainly.

MR. SHILTS: Any other comments on that? I'd like to turn to another topic. Is there anything more on the clearing aspects?

MR. CAWLEY: Just one -- just to echo what Gary DeWaal said earlier when it comes to open access. I think the commissions really need to define what open access means and how it needs to be followed. Which FCMs can participate, which FCMs cannot? What are the capital requirements? What are the operational requirements that go along with membership? And how they will affect -- and how the clearinghouses are addressing those.

But specifically, you know, open access in terms of FCM participation. But also open access in terms of workflow. It's really important that we have symmetrical workflow where trades are submitted as directly and as quickly as possible from a SEF to a clearinghouse. So, you know, what are the components that go into that?

And when I say symmetrical, I mean that the SEFs submit both the buy side and the sell side leg of any trade simultaneously to the clearinghouse. That it doesn't get submitted by one of the two parties on behalf of the second party. It becomes very convoluted and becomes very complex, which increases latency in the system.

So again, being mindful of open access in terms of participation. But also in terms of open access in streamlining the workflows to ensure that, you know, trade integrity is maintained.

MR. SHILTS: Okay. I just -- the next topic we wanted to talk about relates to some of these same issues related to SEFs. And I'll just tee it up kind of quickly and then we'll take a short 10-minute break.

But as we discussed, I mean, there's a clearing mandate and then there's a trading mandate for a better term. And that would apply to swaps that are -- the trading mandate would apply to swaps that are subject to the clearing mandate, that are then listed by either some designated contract markets for commodity swaps or the SEFs. And then those that the -- in the case of the -- ours, that the CFTC has determined are made available to trade. And then they would have to be executed either on DCMs or SEFs under some pre-trade transparency provisions. And we put out various proposals, or they'd be in an order book, or certain RFQ-type systems.

But before there is a trading mandate -- and I think the -- to kind of frame the discussion is that we know that there's a number of entities that are thinking about or developing systems to become SEFs, to trade swaps. So that -- we want to focus on in the next discussion is what types of requirements, provisions, roadblocks are there for these various entities to become open for business or operational to trade swaps? Again, kind of thinking about it in the context of if we had a date of, say, the end of the year -- just for something to think about.

Again, it's -- the focus on the discussion will be on becoming operational to trade swaps. It won't be to implement the trading mandate, which has been discussed. May need additional information to have determinations about what swaps are mandatorily cleared. They might be listed, we may need data from the swap data repositories, or whatever. So it's, again, to kind of focus on what's needed, what are the roadblocks, what are the key things that need to be in place to have open access? To have your self-regulatory responsibilities, et cetera. What would need to be done to be provisionally registered? And then thinking about that longer term, how much time would it take to become fully compliant with all of the various requirements that might be imposed to execute swaps in a transparent way to meet the -- for those that are subject to the mandatory trade execution requirement?

So think about that. And then let's

just take like a 10-minute break. And hopefully start maybe at 5 till 11? Thanks.

(Recess)

MR. SHILTS: If everyone could please take their seats so we could get restarted?

Okay, as I kind of teed it up before we took the break. Again, the question or the topic we want to kind of focus on now is kind of what rules or processes or minimum capabilities should be in place before the agencies permit agencies to operate as a SEF? At least provisionally. And then, after that if there's a provisional registration to how much time -- what are the key issues that would need to be addressed before they could come into full compliance with all of the SEF requirements, including those related to the trading mandate. So anybody want to start the discussion?

MR. LEVI: We are open and operational now with very many of the attributes that we believe will be required to become a SEF. How long it takes us to become compliant with every regulation depends on what those regulations are.

I'll point again to the harmonization question, both between the two regulatory bodies and harmonization with international jurisdictions. The rulebook is an important piece for us. In order to provide a well thought-out rulebook will take some time, and the danger is also, once again, that there are differences between the rulebooks of the different SEFs.

The WMBA has been in contact with many other potential SEFs, and we feel that a common rulebook or a CRO, a common regulatory organization for our industry, may well solve that. It's some way towards Adam's idea of standardized documentation and a standardized rulebook. So we think that would help.

Once again, depending on which asset classes go first or which asset classes are amongst the first phase will determine how long it takes us. Sending data to an SDR is relatively easy, and we could do that more or less -- well, within 30 days, I would say.

The APIs, or the links with the clearinghouses, are obviously very important and those things do take time, depending on the complexity of what's given to us.

MR. SHILTS: Could you just explain why you think the asset class would matter in the context of an entity that wants to operate as a SEF? And see -- you know, they could decide what swaps they're going to trade. So why -- I guess I'm just -- if you could elaborate why you think asset class would be relevant?

MR. LEVI: Because some asset classes are pretty close to the regulation right now. In my mind, commodities, as I was -- as I mentioned before, are pretty close. A lot of it trades on the screen. Nearly all of it is cleared at one clearinghouse or another. We send our confirmations either to ICE or to CME. So a lot of it is done.

You could add a few finishing touches, i.e., it has to go to an SDR as well, which is what, as I say, is relatively easy. And you are more or less in place. And a lot of those markers do trade on a continuous basis. If you go to IRS, where there's no real clearinghouse in the U.S. doing any great volume, where it's still not really traded on screen, that may take longer. If you go to CDS, where there is certainly a difference at the moment between the CFTC rules as proposed and the SEC rules as proposed. That those markets -- that the index market and the single- name market are obviously very interlinked. We have to get that right between the two to try and develop for one market, and one set of regulations, and another set of regulation would be extremely difficult.

I say depending on asset classes because some already have most things in place. And others are coming from the wilderness, really.

MR. EDMONDS: Yes, Ron, I want to touch on what you raised a little bit earlier about the CDS market and how, you know, developing for two different structures is potentially problematic. At the end of the day -- if I could just modify your statement just a little bit -- it's really their one market. And the regulatory status is making them two. And that regulatory status making them two creates capital inefficiency, which is problematic for the market.

And so I think if you'd be so kind to let me amend your statement, it's really those things that you're looking at to try to get the most capital efficient ways that the market behaves similar to the way it has developed over time.

MR. LEVI: Chris, I'll happily take the correction. It is one market, and the two different sets of regulation will be problematic. And once again, those are markets I think that risk going offshore. That they're fairly easily traded -- certainly the index market, I think, could easily trade elsewhere.

CHAIRMAN GENSLER: Rick, I'm going to do an audible here. Is the most important thing portfolio margining, then?

MR. EDMONDS: As it relates specifically

to the CDS market, because --

CHAIRMAN GENSLER: Yeah, that's what I'm asking -- I'm asking about credit default swaps in between our core nation with the Securities and Exchange Commission.

MR. EDMONDS: That affects governance, that's going to affect risk requirements, that's going to affect default waterfall management. From a clearing to the CDS, absolutely that is the biggest thing at the moment. How do we account for it in class? Who trades single names versus doesn't trade the other, potentially? How we handle the registration of potential members -- that would be a very important piece, if not the most important.

CHAIRMAN GENSLER: I'm sorry, so portfolio margining is not the most important?

MR. EDMONDS: No, it is. I'm saying it spans across all of the different other elements, is the point I was trying to make.

CHAIRMAN GENSLER: All right, thanks.

MR. OLESKY: In terms of the limitations

-- going back to your question -- I think we look at this -- we break it into two things. One sort of process rules and the other is operational rules. And on the process side of things, rulebook, criteria, that sort of thing, we think that's relatively -- that's the first -- that should go first.

The operational --

MR. SHILTS: And would that be something doable like by the end of the year?

MR. OLESKY: Yes, we think it is. We think it is. Operational is a little different. So you're monitoring surveillance, audit -- you know, we haven't really done this before. So when you get into the operational aspects, if we're going to outsource that, if we're going to build internal teams to do it, I think that will take a little bit more time and investment. So we would suggest process first, operational second when it comes to this specific issue.

MR. SHILTS: And just as -- and in response to your comments, and then for others, what particular requirements or procedures or oversight procedures should be in place to people think to be -- say, to be provisionally registered? I know you're saying that there may be other things that may have to be phased in, but do you have any thoughts on what should be in place initially?

MR. OLESKY: I would stick with the sort of rulebook criteria oriented things first. What that does is, it sets up these hubs that are SEFs or clearing corps -- whatever role you're going to play -- for the marketplace as a place to gravitate towards so that you've got -- because there's hundreds and hundreds of clients out there. There's going to be a more limited subset of SEFs and clearing corps. And I think it allows the market to identify who they're going to develop to with technology and relationships and clearing, et cetera, so.

MR. BRADY: Yes, I'd like to make just a couple comments. What I think -- Lee mentioned, you know, the sort of rulebook readiness and then getting your own platforms ready and then clients being ready. And, you know, we look at the world in a similar fashion.

I think there's a general consensus here that the rulebook side, the process side. It is possible to get ready and open for business date of the end of the year, particularly if there is a provisional registration allowed and there's more of a principles-based, you know, approach that's applied.

Operationally, you know, our own platforms. I also believe there's a high degree of confidence that we can be ready. I mean, we're a functioning DCM today with an RFQ based platform and moving to a central limit order book platform later this month. But I mean, the various platforms here around the table are, I think, ready to go. And with a date certainly, you know, could be ready to go.

So then that leaves, you know, the client readiness and to Adam's, you know, timeline which we, you know, generally support the approach of T plus 180. And then having a voluntary phase in, we think that's important to test systems. And then I think the question would become then, you know, who comes next? And I think there is enough data out there to look at the large clients and sort of segment this and put the -- you know, perhaps the mandates on the dealers and the large clients first in the first wave. You know, I think you're able to find -- and then perhaps phase, you know, a tier two of clients. And we can go into all the -- you have other panels around particular issues faced by certain types of buy sides.

But I think with that sort of reasonable approach, knowing that we can get our own house in order and then really focusing on the client readiness and phasing that intelligently is very important. And then, you know, with that approach, you know, we're big proponents that the trading mandate can come, you know, fairly closely on the heels of the clearing mandate. And that that trading mandate actually is what delivers a lot of what Dodd-Frank is all about. It brings more transparency and sort of price setting to the clearing -- DCOs that they can risk manage those correctly. And also brings, you know, other counterparties to, you know, distribute out the risk that's being held.

MR. OLESKY: If I could -- I agree with everything Neal just said. I just want to add a further clarification in terms of the rules.

One of the concerns we've had is, you know, so much is going to be changing here in terms of the liquidity in the market, the participants, the way participants interact. We would encourage both commissions to be flexible in terms of our rule-making so that we can adapt to those changes. Because we fully expect a lot is going to happen, and we're not all going to get it right from the very beginning.

So we are saying, a good place to start is with the rulebook. Let's get that out there and plant the flag. But recognizing that as things transition into this new market environment there's going to be change. And we would want the flexibility or be able to have flexibility available to us to adjust to that in terms of different trading protocols, different business models.

MR. COOPER: And I think that ability for the trading platforms to evolve is really key, and in fact will come the sooner we launch central clearing. And good clearing -- that is with straight-through processing and all the attributes that really make for a robust platform. SEFs and trading facilities will naturally be pulled along in a way that is very, very efficient, and supports the launch of the central clearing.

I think the key is that there be open access through a wide variety of modalities and execution facilities in order to foster competition, to make the platforms even more robust and meaningful. But again, the key is launch central clearing first, the right kind of good clearing, and the SEF sort of structure will naturally, quickly evolve out of that.

MR. CAWLEY: Just from Javelin's standpoint, I would agree with what Adam has said, and others.

I think every venue here -- execution venue -- has done test trades that are Dodd-Frank compliant. We certainly did our first last summer. And I think from the most part, I understand that the technology is built and procedures and operational readiness is moving right along.

For us, where we sit right now is connecting into all CCPs, which we currently do not. Not for want of, you know -- we're just waiting to see what the rules are coming down, and we're negotiating to come in. We connect to some and we'd like to connect to more.

So, the idea then of getting this done in a fairly -- from an execution standpoint is -- you know, is in a matter of months, I have to be candid. I agree with Adam's earlier comment before the break, where he set a schedule of six months. From an execution standpoint, I would even argue sooner. We were certainly looking towards July as the start date, with a fairly tight graduating window in shortly thereafter.

But then again, it depends on what you want on day one. Assuming you have open access and assuming you got direct connectivity and trading systems that comply in terms of pre-imposed trade transparency.

You asked the question, well, what -- you know, notwithstanding, what rulebooks? You asked the question what should the bare minimum be for a SEF to go live on day one, and then graduating it in. I agree with Lee's comment earlier that rulebooks can run in tandem in the background once we demonstrate some -- you know, some degree of compliance and sophistication so customers have a basic understanding of how we're going to look.

One of the items, though -- it comes back to, what do you want on day one vis-à-vis trade certainty? And I know we're going to talk about this on another panel. But if you come in and say, well, we'd like to have real- time connectivity from SEFs to CCPs and then, likewise, from the CCPs back to SEFs, I've only heard probably one CCP say that they're prepared to give that real-time connectivity back.

We're certainly prepared from the SEF standpoint to deliver a trade on a real-time basis with the expectation or the hope that we get that connectivity back. Now behind that, there's some workflow issues that need to be addressed, and certainly some technology that needs to be addressed. Some of it may have been built with certain CCPs, some of -- some CCPs may not have it. And certain SEFs may not have it.

So it really comes back to what do you want on day one? Do you want that real-time trade acceptance and confirmation, or do you not?

MR. SHILTS: And I guess you'd be suggesting that that be phased in? That would --

MR. CAWLEY: It depends on what your timeframe is. Frankly, the technology exists today and it's widely available in other marketplaces. And it's certainly available with certain CCPs here. And I know from the SEF standpoint, you know, Javelin is prepared to offer it. So if you're asking me if it be phased in, we could deliver it in a matter of months, certainly inside of three to six months.

So if you're going to say to phase it in over six months, that's plenty of time. We would even argue for sooner.

MR. COOK: Can I ask when you're talking about, you know, the first phase being more process and the second maybe being some of the rules. So what actually is in the first phase? I mean, what -- is it -- the rulebook comes later, then what does it mean to have a phase one? What actually would be included in that?

MR. CAWLEY: The ability to open for business and then put a trade through. And make sure it gets to the CCP. And in a very basic sense. So, you know, right now although certain firms are ready to go both on the clearing side and on the execution side, I think the challenge is the customer base right now is waiting for, you know, the commissions to determine exactly what margin is going to be. Both for cleared, and then what the capital applied to uncleared trades, importantly, is going to be. And I think if you strike the wrong balance there, you might not -- you want to encourage trading and you want to encourage clearing of swaps. So, I think you need to have that addressed first before -- because you can open for business and no one will show up, because there's no reason to submit a cleared trade.

MR. TURBEVILLE: Just a -- I think I hear what you're saying and I want to make sure -- maybe it's the old lawyer in me coming out.

What you were actually saying was, transact in accordance with the rules for transacting cleared, mandated cleared transactions? Match that way and get to the CCP and get it cleared? So it's a qualifying match in a qualifying submission to the CCP.

MR. CAWLEY: Yes, that's exactly right.

MR. TURBEVILLE: Specifically for these guys.

MR. CAWLEY: You know, a qualified trade being submitted and then being accepted.

But the notion is that, we can build and we can invest in technology and infrastructure -- and as Lee and others have mentioned today, it's tough to decide and allocate capital when you've yet to define what some of the rules are. That said, from where we sit strategically, you need to determine what -- well, why would somebody submit a trade for clearing if they don't necessarily have to? So, you need to come in and say, well, you have to. And what does that mean? You know, what's the penalty -- I don't want to use the word penalty. What is the margin for a clear trade? What's the capital required for an unclear trade?

Are they being appropriately matched to those trades? If they're not -- for example, trading goes on every day right now, in a bilateral sense, but they're -- you know, the capital is not being applied in a uniform way, obviously.

MR. TURBEVILLE: And the other thing that's sort of interesting, it seems fairly obvious is that there -- each element -- the technological elements of all of this? They exist out there. There's no requirement in this process to invent cold fusion by any of these folks. The steps all exist, they've been done. People have managed to match transactions for years now, and get them to clearing and back without harming the environment or the planet.

So, all of those elements actually exist. It just strikes me that the bigger issues are associated with the rule side of it and the certainty of how things are going to actually -- what requirements are going to be put on the marketplace at a later date. So the systems are out there, and given the right level of investment, if you threw enough money at it you could get all this stuff done, like, really fast.

MR. LEVI: I think we could do it very quickly, but it depends on what the rules are. It depends on how many changes we have to make. To point out, once again, that the SEFs or the IDBs that we are, at the moment -- there are many different forms of execution. It's not just a continuous bid offer-type screen. That there's auction technology, there's voice broking, there's very many different types. To try and stop all that and go to just bid offer would harm the market. It would greatly harm the liquidity.

It's really important that the rules take that into account, and it's really important that the rules have the flexibility built within them that recognize that the markets are all very, very different. Risk is paramount, but keeping hold of some sort of liquidity, allowing the end user the ability to hedge their risk is also very important.

MR. TURBEVILLE: But I think one of the important things is that there's been a lot of discussion in the marketplace of ideas that there's this huge cost to implement Dodd-Frank generally and these matters generally. And you're talking about a cost there which is a cost of, you know, changing the market and having the market adapt.

But on the other hand, I think that it's worthwhile thinking about the fact that all of these component parts exist out there. If you threw enough money at them, you could get them done really quick. Or you could pay it out very slowly and it would take a long, long time. It's sort of a -- that's sort of what the decision is, is how much money the infrastructure providers are willing to put into it.

From our perspective, since the Bank of England said that the financial crisis costs the world something between $6 trillion and $20 trillion in GDP, we think -- we're eager for it to happen sooner rather than later, so we think that putting money on it is a good idea. But in terms of building something, building a structure, this is not something outside the capability of humankind to do and it's really a matter of what resources you throw at it.

Other issues, like what you described here, are sort of another kind of issue, which is very important. Don't injure the market, do it prudently. And it seems to me that in terms of phasing, it's not building the structures or getting it capable to go. It's judgment about how you roll it out to make it sensible inside the market.

MR. LEVI: It's not about the money, because I think all of us here would spend as much money as necessary to get things done. It's a question of clarity of regulation and well thought out regulation.

The last thing anybody would want would be to have to change something, for it to work very, very badly, and have to change it again. So it's well thought out -- obviously, very well thought out regulation and clarity is what we're all after right now.

MR. OLESKY: If I could also add. I don't think my shareholders would appreciate me saying we'll spend as much as we have to. This gets back to the certainty around the timeline.

To make informed decisions about how much to spend, what to build, you really need that timeline. Because we're running businesses here and the issue is, what is the return? And if you don't have a sense of, you know, with great certainty -- because we're basically building something new here. When will it all become effective, I think, is a very important component in the decision making for all of us. So it just goes back to the certainty around timing.

MR. TURBEVILLE: And I think you make a great point, which is from the perspective of a given company that's an infrastructure provider, your rational decision would not necessarily be to get it done as fast as would be good for the entire public. I think that's right.

I think regulators are the ones who are interested in the broader public's interest, and it's up to them to give the timeline. Otherwise, rational decisions by companies like yours could have this go for longer durations than would be good for the entire public. So timeline, you're absolutely right, is like essential. And I think we need to recognize that while the market will spontaneously grow, timelines in terms of when things are required have to be very clear. And that will inform you as to how much -- when you go to your shareholders saying, we have to do this. Do we want to do it? Yes, okay. We're going to make this expenditure because we want to be in the business.

MR. OLESKY: Right. It also helps in prioritization. When you sit down to build technology, you want to have as much of the picture as you possibly can when you start to do the architecture for something. So, you know, the more certainty you have -- actually in addition to having a certain timeline, the more certainty you have, the lower the cost is going to be. Because we all do this, and one of the challenges is, you know, if you start to build something and then you go back to your developers and say two months into it, we have got to change this and this. Well, that ends up becoming a much more expensive and lengthy process.

MR. DeWAAL: You know, I hate to be the old party pooper, but again unless I misread the Commodity Exchange Act and Dodd-Frank, at the end of the day these trades have to be processed on behalf of customers through clearing brokers like myself. And it's sort of odd that at this late in the game we don't know whether we're going to be participants or not. And that logjam needs to be resolved, I think, relatively quickly.

I can tell you from some of the -- we are members of all of the -- a lot of the swap initiatives out there, whether they're the ones that are novated as futures -- most of the ones that are novated as futures -- and it's not an easy task to hook up to these facilities. We need lead time for brokers like ours that aren't natural swap dealers. There's supplements to our back office system that need to be acquired and tested before we can make connectivity to the clearinghouses, and ultimately to the SEFs. And this isn't going to happen overnight.

And you know, I agree with you. You know, I suppose if all the money was there it could be spent and we could do that overnight. But all the money isn't there and we can't do it overnight. So, we need to have certainty as to whether we're going to be allowed to become members of the CCPs. And we need that as quickly as possible, otherwise there's going to be a very, very limited universe of clearing brokers.

MR. MORAN: Just touching -- I'm sorry -- just touching on a lot of the comments that have been made. I still think that we come back to what Lee's point is around timing.

There are pipes and plumbing today that allow us to clear in many of the clearing corps. Most of the dealer community who has agreed to be a central clearer, as an FCM for clients, have built out that infrastructure. Or let's say, are about 80 to 90 percent already built out.

What we're really looking for is timing on when clearing will actually become a reality.

Today's market, on a bilateral basis, there's many clients that do not post IM or independent amount, however you want to call it. And that's the cost of capital for them. So until there's regulation that actually comes down that will say, you know, this is the date that actually has to clear, it's not -- my opinion, I don't believe it's actually going to happen until that occurs.

And that's pretty evident in the open interest that currently sits out there today on the client side. So until those decisions and regulation are put forth and the capital issues that need to be addressed, I think clearing will not become a reality until there's a certain hard date and hard timeline.

MS. BRINKLEY: Chairman Gensler, did you have?

CHAIRMAN GENSLER: It's just a question for Gary. So you're referring to what we put out last December about participant eligibility or membership, that the clearinghouses would have to accept somebody who's just less than $5 billion in capital and $1 trillion swap book. Is that what you're referring to?

MR. DeWAAL: Something like that, yes.

CHAIRMAN GENSLER: Yes, yes. Just, you know. Well, you know what our proposal is and we've gotten lots of comments on it. It's open for comment, again, for 30 more days. So if -- you know, we'll hear broadly from the public.

I think the reason -- I can only speak for myself -- the reason I supported that rule and I think it's a good rule, I think it lowers risk to the American public by broadening the clearinghouses futures commission merchants. It's worked very well in the futures world. It's not that swaps are identical, but I think they can learn from that, so.

MR. DeWAAL: And I think as you're aware, we're not going to get the substantive -- the base here.

You've told me I can't get into substantive comments, but obviously certainly -- you know, once that rule is enacted and then once the clearinghouses respond to it, by formulating specific rules that will give us the guidance we need. You know, and it's not just firms like New Edge. I mean, New Edge probably can meet most of the eligibility requirements of most of the clearinghouses today. But there are a number of other firms that probably are on the cusp. And you know, either we're going to have a broad clearing system or we're not.

MR. LAWTON: Quick question for Gary, follow-up. If those rules went final, how long do you think firms would need -- firms that are on the cusp --

MR. DeWAAL: When you said the CFTC rules or then the rules articulated by the clearinghouses for membership? Yes, I mean obviously, once the CFTC rules are out, that would certainly give an indication of where the world is going to go. And then obviously, the devil is in the details at the clearinghouse level. Then it's a function of each firm and making assessments about how to make connectivity. And I think you'll hear later on over the next two days the difficulty of making the connectivity clearinghouse by clearinghouse and SEF by SEF.

I mean, one of the things that I think about when I think about this thing just generally is that, again, those who connect first will clearly be in a predominant position. Obviously this is an industry where liquidity shows reluctance to move. You know, first in line tends to have great benefits. You know, and if in fact things look difficult and delay implementation and then we move closer and closer to the starting line and then everyone's allowed to participate, the reality of life is the incumbents will definitely have an advantage.

And again, that's your job to make the public policy on that. But that's just the reality.

MR. SHILTS: I'd like to ask a question similar to the one John asked before about -- with respect to clearing. And that is, for SEFs becoming open for business operational, say for example by the end of the year. You know, as mentioned as a possibility.

And again, assuming that there isn't a trading mandate in place so that the requirements that the CFTC or the SEC may impose for how those types of trades are executed, the pre-trade transparency provisions -- that that doesn't have to be in place, because it's presumed that there's been no determinations about particular swaps being -- having to be under the mandatory trade execution provision.

So what do you view as being the key roadblocks or things that need to be in place that would prevent you from, say, being operational by the end of the year? Is it any of the particular core principle requirements? Or something else that would be the most problematic?

And the other thing to touch on on that is that, as you know, there's been a lot of discussion about the self regulatory responsibilities that SEFs would have to assume because swaps are fungible and can be traded on multiple venues. So are there particular issues related to that characteristic of swaps which is different from futures that would go into determinations about being -- the ability to be ready to be open for business?

MR. OLESKY: I think, Rick, getting to the latter part of your question, it's the breadth of our responsibility and the availability of outside help that's still not clear. So, just as an example, one of the things we're concerned with is position limits or any area where we have responsibility -- is it responsibility, as we like to say, for our own classroom? Or is it responsibility for the whole school? And if it's responsibility for the whole school, we're just -- we have a lot of work to do, and I think we would need some outside help. Because we can monitor things happening on our own -- I'll speak for Tradeweb -- on our system quite well and we can run reports and we can have a team doing that. But if we have a broader responsibility beyond the classroom that is Tradeweb, I think it will be more difficult.

And that kind of goes back to my earlier points about the operational aspect of doing the monitoring and surveillance coming after the rulebook and the registration.

MR. EDMONDS: Yes, I mean, Rick, I would say to Lee's point there are some unintended consequences to that as well as it comes back into the CCP. So, open access rule, I think we all know what that looks like. And, you know, have an opinion around that.

But we also have to make some judgment on whether or not -- at least until some point in time that these SEFs have been defined and blessed that they meet the requirements required by the individual commissions. As they're connecting, we have to make capital allocations of who is going to have the bandwidth. And there's a finite amount of bandwidth of who's going to get here at what point in time.

And as much as we're debating rules on clearing, we also debating rules on the execution piece. And we're all sitting here at a little bit of a Mexican standoff and going, well, what do you have? Or a game of poker, you know, there's some bluffing going on. And we have to sort through that in some form or fashion.

And the industry and a voluntary market has done that for commercial reasons over time. Now we're trying to deal with the prescription coming forward, you know, that kind of takes some of that toolset out of your hands.

But you know, no one can represent -- you know, regardless of the number of, you know, very fine institutions represented in this panel, no one can represent to you that they are completely compliant as a Dodd-Frank SEF. It's not there yet. And we have got to get there. So when folks say, you know, gosh, you know, you got -- Chris, you got to make sure that you are compliant with the open access. I realize that. You've got to make sure you're a SEF.

MR. CAWLEY: Chris is right. There's clearly -- looks as if there could be a day one and day two implementation, in terms of -- both from the CCP side and also from the SEF side. Chris is right.

You know, from the SEF standpoint no one can go out there and say, well we're fully compliant. Because we don't know what it is. So, the sooner there's clarity and definition brought to that, you know, I think the better we all are and the safer the market becomes.

One of the other things to contemplate as we consider, you know, day one and day two events is -- and readiness really is -- and certainly in terms of capital allocation and resource constraints -- is we need to be also mindful that there are competitive forces at work if you allow -- if you set the baseline. They all start in the same starting line, they all come together. You know, let them, then, make their own internal capital allocation decisions. And let them, you know, succeed or fail based on those decisions.

But be mindful that there is competition in the marketplace, both with SEFs and also with CCPs. And we shouldn't be looking to solve for the weakest link in the chain, as well, to put regulation implementation into some sort of holding pattern waiting for the last guy to implement. That makes us then captive to the weakest guy in the system.

So, allow competition to flourish. Allow us to compete with each other. Allow us to work together to address issues that clearly affect us all. But bring definition to some of the basic -- to the base level as to where we're going.

MR. TURBEVILLE: In terms of understanding how things work, Chris, you mentioned something that is kind of interesting that I've heard before. You talk about limited bandwidth? And I guess it would be good for folks to understand that, because in terms of competition to the extent that there's limited bandwidth, that affects competition and the potential for competition. And I'd like to understand in terms of you guys, what do you guys mean by that? What are the limitations, right, on how?

MR. EDMONDS: So, let's -- one example. Let's just say, hypothetically, we say that all SEFs have to be connected to all relevant CCPs under the open access requirement by July 18. There are not enough days. And we -- because we don't know what necessarily classifies as a SEF today.

I mean, I get phone calls on a fairly regular basis where some guy picks up the phone and says, hey, I'm a SEF. You've never heard of them, you know. You don't know where they are. And they see an opportunity. And I'm sure they're doing their best to seize that opportunity at the point in time. And then there are other folks who effectively operate what we all look at and say and would probably under oath say, yes, that looks like a SEF to me, in my opinion. They're all going to be equal on the same day.

So without that phased in approach --

and there's some method to the madness, if you will, of qualifying, well, are you or aren't you? Step one. And then, you know, it has to go into, you know, a compete for resources at that point in time.

And at the same time -- sorry -- at the same time, not all SEFs are -- their timeline of connecting to the CCPs are going to be the same. So there's going to be an alignment between the resources of the SEFs looking to connect and the resources of the CCPs allowing the connection under the open access piece. And those don't necessarily just by magic line up on the same day.

MR. TURBEVILLE: So you're talking about just as a practical matter --

MR. EDMONDS: Practical matter --

MR. TURBEVILLE: -- given the, you know, infinite number of SEFs out there, and may, in fact, from your description may be getting toward infinite in terms of number --

MR. EDMONDS: I think Chairman Gensler is probably the best at making that market. So

I'm not going to take that away from him at this point. So.

MR. TURBEVILLE: It's just impractical.

MR. EDMONDS: Yes.

MR. TURBEVILLE: So it's not bandwidth in the sense of, you know, some technological or strain -- it's just --

MR. EDMONDS: Hours and days --

MR. TURBEVILLE: Hours and days. Just wouldn't work.

MR. MAGUIRE: It's resources. It's purely resources. I think SEFs, SDRs, reporting and reconciliation groups, consultancies on behalf of clients, FCMs, clients, executing brokers -- it's kind of nice to be popular for once in my life. But it is every day, as Chris says, there's another SEF on the line. There's another something coming up. So it's a true resource issue. It's not there's anything else there. It's we're agnostic to SEFs. We're agnostic to -- everybody is agnostic to each other at the moment, I guess. But we are agnostic, it's just a practical reality of implementing this stuff.

And I think it's practical reality of implementing it safely and securely as well. Because if this stuff goes wrong on any given day, that's a real bad thing for everybody. So I think we've got to have that in mind as well.

MR. TURBEVILLE: From the public standpoint -- and just to -- then all that being true, yes, it would seem to me that the real issue here is transparency of your process to make sure that things don't get into discussions about, you know, who was fair to whom and that sort of thing. Because these issues have been talked about as recently as this weekend in The New York Times about how -- to make certain that as transparent as you guys can make your process? That's all to the good in terms of implementing this thing in a reasonable way without a lot of confusion and fighting at the end.

MR. LEVI: I think it's possible that --

MR. SHILTS: Could we just have maybe one or two more comments on the SEFs? Because we'd like to turn and talk a little bit about the swap data repository. There are some similar issues.

MR. LEVI: Very sympathetic to the clearinghouses. It's very possible that the shelf registration or an interim registration of SEFs would help them sort who the real SEFs are and who the not-real SEFs are.

MR. CUTINHO: Just final comment on that. I think we have some experience, actually. While launching our services we had several platforms actually try and connect to us. We cannot speak to the rulebook issues of SEFs. I think there are resources, there are resource implications, and things like that.

But as far as speaking to connectivity and supporting SEFs or on-boarding them, as long as you have a very open API, a well defined documentation, and a certification period we give, typically, four to six weeks for a platform to actually certify. So they go through different workflows.

And this is done in concert with the clients as well as clearing members. So that is how the process works. It has worked two times, and it continues to work today. Because there are several entities that are trying to certify through us.

There is a risk element to it. Essentially we assess the SEFs and the clearing members assess the SEFs as well, because it's their clients that are trading on these entities.

So with all these checks and balances in place, we are confident that we have a good process to on-board SEFs, from an operational perspective.

MR. SHILTS: Okay, thank you. And now for just -- try to seek some comments on -- with respect to similar concepts for swap data repositories. And thinking about what policies, procedures, rulebooks, whatever should be in place for initial, say, provisional registration of entities operating as swap data repositories. Again, possibly thinking about the end of the year maybe for certain asset classes.

So, what should we be looking for? For SDRs to have in place to be, say, provisionally registered? And then thinking about a timeline for the various other requirements that would need to be adopted, say, over time to -- before they would get permanent registration as an SDR?

MR. THOMPSON: We would think that you want to have a very strong rulebook from the very beginning. We think already there have been a lot of thinking done by regulators internationally about what swap data repositories should look like and what should be the baseline requirements. As I mentioned earlier, the CPSS- IOSCO standards that are already out there.

So, we would be very strong advocates that membership requirements, BCP requirements, all of that should be well in place well before one begins any kind of provisional operation.

Again, to the point that you don't want to be subject to your weakest link. You really want to make certain, especially since the issue of transparency is so important in this marketplace. And in our view, given the experience that we've had where if you have transparency in the market on the part of regulators and, hopefully, the public, some of these other issues can be worked on to make a lot more sense and put in place. But you clearly need to have a very strong swap data repository system. And we would advocate for very strong requirements at the very beginning.

MR. PRITCHARD: Yes, I'd echo a lot of what Larry says there. A couple of points to add, I think.

In recognition of the global nature of the OTC swap market, you know, we've operated a repository for some time now and also a commercial service that collects a huge amount of swap data. We would think that that would, across the world, support the case for recognition of foreign registration as far as provisional registration goes in order to speed up that process.

We're going to get on and talk about the phasing of the data repositories in a moment. We can wait for that. We can launch into that.

That was the only point I had about registration.

MR. SHILTS: What other --

MR. THOMPSON: The one issue I did want to highlight there is what Raf just mentioned, the international issue here. And that is, obviously, the issue of harmonization with not only just the two commissions, the SEC and the CFTC, but obviously with the EU. And at the moment, there is a very troublesome provision in terms of harmonization, which is the indemnification provision which happens to be in Dodd- Frank.

We understand that that's part of the law that has to be dealt with, but we did want to raise that because that does lead to the possibility of fragmentation in the international marketplace.

MR. SHILTS: Assuming we -- the agencies have some sort of a provisional registration in place and that entities do -- various entities do come in to be provisionally registered as swap data repositories, with respect to be coming into full compliance, what do people think are some of the major issues that would have to be faced? Is it the development of unique identifiers? Or valuation? Or connectivity? Or whatever? What would be the main drivers for getting into full compliance? And what might be like a timeframe for that?

MR. THOMPSON: The one thing I wanted to mention -- and I think it was mentioned earlier in the context of the clearing as well -- is that if the rules are written in a general enough fashion and a principle manner, then how the information gets to the SDR would be something that we could work on and then be able to better define later on, as opposed to be overly prescriptive in terms of what the rules are, in terms of how you want the information delivered to you.

We think we can get the information delivered to the commissions because of the work that we've been doing already with both the buy side and the sell side, well within this year. And we think that information will be very rich.

We need to know pretty soon that we need to start working on that. But we think that that is a timeframe that is doable and that we and our constituents would be ready to commit to.

MR. PRITCHARD: We would echo that point. I think the repositories out there currently collect a huge amount of data. We collect 3.9 million outstanding life contracts and rates.

And to Larry's point, I think how the data gets to an SDR is less important than getting integrity around the population. Getting that cut -- the whole market and getting accuracy around the data.

Also in terms of sequencing, you know, as a software service provider we would observe obviously that building real-time solutions is a lot more critical and sensitive than building daily batch solutions. And so in terms of getting that first cut, it might make sense to prioritize a daily batch snapshot of the market. And then you get all that structural information that you get that complete -- somebody said earlier, getting the complete picture before you do the architecture is important.

You get that complete picture on a daily batch basis, then you could sequence the real-time -- the more real-time sensitive parts of the reporting requirements subsequent to that. And that would put you in a good position to make good decisions down the line.

MR. SHILTS: We understand that ISDA is going out and looking at, I guess, RFPs or whatever in the context of setting up additional -- data repositories. Could someone kind of talk about that and how that may intersect with our adoption of regulations and the implementation? That whole mechanism?

MR. THOMPSON: There is an ISDA process. There was an ISDA process for credit, which we have. There was an earlier ISDA process, my understanding for rates. And because of

Dodd-Frank, I believe, they're going out and requesting additional information.

You know, how that all intersects, you know, is going to be something that the industry is going to have to look at obviously very closely. And I think both we and the industry and whoever the winners are of the ISDA process would obviously have to come to not only the two commissions to get a full understanding of what that process is, but obviously also has to play into the international market as well and understand what those requirements are.

We obviously believe that most of the requirements are already, as I've mentioned before, have been looked at from a broad international standpoint. This being a global business and generally reflected in the CPSS-IOSCO documents. But the particulars of the ISDA process is probably best left to ISDA to explain and not us.

MR. SHILTS: I guess I was also wondering -- I mean, under Dodd-Frank there's not any restrictions on the number of SDRs per asset class. So there can be more than one. And just wondering how this -- your thoughts on how this ISDA process and who might be selected for particular asset class -- how that may -- does it have any bearing on what we're doing? Or the SEC?

MR. PRITCHARD: What we can say, as a software provider, we responded to the ISDA process for the rate RFP a year and a half ago and offered to provide the functionality that they were seeking. And did that successfully, and have implemented that. And that's the basis on which our current rates repository operates. And we are actively working now that the ambition of what has been required has changed, to offer to provide the rates repository at that new level.

But I think as Larry said, that's really for -- a matter for ISDA. We're the provider of the service, they talked to the regulators and came up with a specification of what they were asking for. And they asked the market for it, and we as a service provider bid to provide that.

MR. CUTINHO: I think from a clearinghouse perspective as well as our intentions to become an SDR, we think that it has to be a competitive market, just like clearing. So we support Dodd-Frank Act in that perspective.

So we would like the flexibility to be an SDR as well.

MR. COOPER: One thing to keep in mind, I think, no matter how or whether the process affects the implementation of SDRs, a ton of information is being captured right now. Once we launch central clearing, that information will be readily available to the regulators and help inform subsequent rollout of other rules and regulations. And so, in and of itself, implementation of these SDR rules should not be the tail wagging the dog.

MR. THOMPSON: The only thing I want to say in that regard -- and just so we're clear -- obviously everyone wants to make certain that the information that Adam mentioned, which is already there and which should be kept there, will be kept there as long as there's no fragmentation in the marketplace.

To the extent that there's fragmentation, either because the commission rules are not aligned properly or not aligned internationally, there could be fragmentation. And therefore, we would always want to work with both the buy side as well as the sell side in trying to make certain -- and with all other industry participants to make certain that that information is available to regulators, internationally so that they can provide the transparency into the marketplace so that you don't have a situation that occurred prior to 2008 where that information was simply not available to the marketplace and to the regulators to make informed decisions about that place.

And right now, at least for a couple of classes, they're in a much better position to be able to see transparent into the marketplace, especially the credit default swap, because of the information that's being made available post-Lehman. And actually during the Lehman crisis, as you all know, we provided information to regulators and to the public about Lehman that actually quieted the market during that time period.

We think that's extremely important going forward. And to the extent that there might be forces that fragment that market, that could lead to systemic risk in that marketplace. And that would not, I don't think, be the kind of result that Dodd-Frank was looking for.

MR. MORAN: No, and I think just keeping with that message I think, you know, obviously we want to submit data to the repository not based on necessarily jurisdiction, but based on our global trading books.

And then, therefore, the local regulators and our primary regulator can then view that information in the same format and then have conversations between each other. And therefore, we're not duplicating efforts.

MR. COOK: Can I ask about the

dissemination of trade data? We haven't really -- I don't think we've heard any comments about where people think that should fit in the process. And I think it's an interesting question that may be relevant across the different categories of market participants here.

Can you speak a little bit to how you would suggest we think about phasing in the dissemination of trading? And of course, you know, one of the perspectives we bring to bear on this question is our -- from the SEC side is our experience with TRACE and the development of TRACE. And that did occur in a phased in way over time. But also, there was a lot of concern expressed by market participants about the speed with which it was happening and whether that was contributing or inhibiting liquidity in the markets.

And I think we feel, over time, that that experience has led to improved markets in the fixed-income area. And would suggest that we need to approach this area with a similar -- with some degree of skepticism on the one had about concerns over trade dissemination. But on the other hand, sensitivity to the issues of moving too quickly with blocked trades and the like.

But I would be interested in comments from any of the panelists on the sequencing and phasing of dissemination requirements.

MR. OLESKY: Well, I'll kick it off. Certainly one of the main policy objectives here is transparency. So, I think it's a really important issue.

The first thing that comes to my mind is, without knowing, you know, what the block rules are and what the specific, you know -- what the details are, it's very hard to be responsive to that issue.

We have a commercial imperative where we'll obviously follow whatever the rules are as far as the transparency and dissemination prices, but we'd also as a market data player would like to be able to distribute our market data directly to our clients, and through third parties if we choose to.

So, we're going to do that right away. We do that today, and we'll do it in -- you know, once we -- if we get to be a SEF, we'll do it as being a SEF. But I think the -- it's hard to come up with that until you get a sense of -- I mean, there's some general ideas in terms of how this should work. But to be precise on timing is difficult, not knowing what are the block rules.

And I think the other thing that we have to keep in mind is the likely behavior is going to change considerably over this period. So I guess I'd be an advocate of really digesting this information in this interim period, rather than leading with, you know, we should do this, be prescriptive, do this. Really learn, take in as much information as possible, and then release the transparency rules. I just think we'll be much more informed, because things are going to change.

MR. TURBEVILLE: If you connect up that kind of a process with the non-fragmentation arguments and the rest, the concern is that once it gets started the swap data repositories will become juggernauts and will be dominant.

It would seem to me that the key question on dissemination -- if that kind of phasing occurs, is to be very, very clear about what the requirements, ultimately, of dissemination are going to be before you get stuck with somebody. And in addition, not just dissemination to the public, but what kind of analytics SDRs are going to be required to do on behalf of the regulators. To the extent that you're going to depend on them for the regulators, to make sure those standards are in place before somebody gets embedded and can't be dislodged.

MR. BRADY: You know, from our perspective I think the key to the dissemination issue and the block threshold is also to retain some amount of flexibility. I think there's a lot to be learned looking at data today. But as Lee mentioned, we're moving into a whole different world where it's cleared and the market will trade differently. Also, I just think it's an area where the flexibility is key.

I mean, if you look at the key issues facing platforms -- to kind of get back to the SEF discussion or a DCM that trades a Dodd-Frank compliant, you know, type of swap -- you've got the central limit order book, the RFQ, and the block. I mean, sort of the good news is on the central limit order book and the RFQ, the healthy debate, you know, in the fall. And I think people know roughly where things came out. If you just take interest rate swaps, you know, to be very specific. And the CFTC came out with a guideline around the number of people that need to receive an RFQ. You know, the central limit order book is allowed but it's not mandated.

I mean, the other piece in this puzzle that's missing is the block issues, or the thresholds and the dissemination. I think the key is to put a stake in the ground that it's coming, that there is a threshold. But that will also be looked at very carefully as we roll out this major implementation.

I mean, on the DCM side we've benefited at Eris Exchange from already having DCM principles in place. And we've obviously filed an application. We've looked at those three different execution venues and been in dialogue with the commission. I think the idea is to get the guidelines and the rules out there and then have this iterative process where the various platforms and participants come and dial up with you.

MR. SHILTS: Well, we only have a few minutes left. And the one other area I wanted to touch on with respect to the swap data repositories is just thoughts on how the implementation would be affected by asset class. Because we know there's different levels of development in the development of the SDRs by asset class.

So I don't know if just anybody has a couple of comments on that. Then we'll try to end up close to being on time.

MR. CAWLEY: Certainly from where we sit

-- and I think it was mentioned at the beginning of today's panel -- interest rate swaps, vanilla swaps clearly qualify for a day one index right behind that or on the same day. And the constituents of the indices certainly as well. And then it trails off from there over time, with the 450 to 500-odd names that trade with America today.

MR. PRITCHARD: I think following on the comments that we made earlier, that I'd certainly agree with that about interest rate swaps. But also, generally, that in every asset class there are going to be standardized and is going to be customized. And the smarter prioritization, we would suggest, would be to get with the daily batch reporting of all the data as an early priority. And then to add the -- to build on that, once you get that complete population with all the data that you want to capture on that in the repository.

MR. THOMPSON: In that regard, obviously from our standpoint we think credit is a very obvious area since there's a lot of information we already have on credit default swaps.

We would follow that probably with rates. And then go and look at, you know, each class in terms of its automation, because we think that is the easiest one.

Ron mentioned that he thought commodities were fairly automated, to the extent that they are. And that would naturally follow. So, we would follow it in that -- in those footsteps.

The biggest issue, obviously -- and this would, I think, actually be from the clearing perspective -- is that the rules right now between the SEC and the CFTC could make for some differences that could be problematic. And obviously, to the extent that this is a global market, you need to look at harmonizing the rules as well on the international regulators.

Thank you.

MR. SHILTS: Anyone for one last comment before we close this session?

MR. EDMONDS: Rick, the only thing I'd add to that is, you know, instead of looking at it necessarily by asset class, the commissions may want to look at it by the instruments that have the greatest amount of liquidity. And, you know, the trades that are happening there.

I don't know the value necessarily. Arguments can be made both sides. If something trades once a month, of having that data captured. But something that's traded multiple times a day, multiple times an hour, making sure that you had that data first. And then as it begins to trail out, maybe one way to look at it, instead of being so focused on what asset classes go to it, maybe it's something on the amount of liquidity being there to stake your priority.

MR. SHILTS: All right. With that, I want to thank all the panelists. I think it was very informative. We're going to take a break, a lunch break. We're going to come back at 1:00. And I think some of the same people will be on the next panels, too. So we look forward to that.

And again, thank you, everyone.

(Whereupon, at 12:02 p.m., a luncheon recess was taken.)

A F T E R N O O N   S E S S I O N

(1:08 p.m.)

MR. COOK: All right, we'll get started now, now that we have the mood all set. So, welcome back to the afternoon session of our first day of the round table on implementation. Again, I'm Robert Cook, director of the Division of Trading and Markets at the SEC, and Brian Bussey, associate director in the Division's office of Trading Practices and Processing joins me for this second panel.

We got off to a good start this morning and I look forward to additional dialogue and insight this afternoon on implementation issues. The first panel this afternoon will focus on dealers and major participants. As the agenda indicates, some of the areas we will cover in this panel will be the timing of the registration process, the time necessary to implement policies, procedures, rules and systems necessary to begin operations as a dealer or major participant, the timing of compliance with business conduct and other requirements, and international timing and coordination issues.

In addition, we will discuss whether requirements should be phased in by asset class, type of market participant, or other factors.

As I mentioned in my opening remarks this morning, the SEC is still in the process of proposing substantive requirements for dealers and major participants with the exception of trade verification and acknowledgment requirements, which we proposed in January. Nevertheless, we look forward to input we receive today as we move toward proposing various rules in this area in the coming months.

Before we begin the panel, let me ask if we could just go around again and have everyone introduce themselves and, again, you'll need to push the red button in front of you to turn your mic on.

MR. O'CONNER: Hi, I'm Steve O'Conner, Morgan Stanley.

MR. PICARDI: Matt Picardi with Shell

Energy North America.

MR. TURBEVILLE: Wally Turbeville, Better Markets.

MR. LAWTON: John Lawton, DCIL CFTC.

MR. SHILTS: Rick Shilts, director of the Division of Market Oversight at CFTC.

MR. BUSSEY: Brian Bussey, associate director, Trading Practices and Processing at the SEC.

MR. ROTH: Dan Roth, National Futures Association.

MR. HORKAN: John Horkan, Bank of America, Merrill Lynch.

MR. GIDMAN: John Gidman, Loomis Sayles.

MR. DIPLAS: Athanassios Diplas, Deutsche Bank.

MS. GUEST: Alexandra Guest, Barclays Capital.

MR. SHILTS: Just quickly, I was told that they're having some difficulty hearing people, so maybe if everyone, including myself, gets a little closer to the microphones when they speak. Thank you.

MR. COOK: Great, thanks. And again we'd like to extend our gratitude to all the panelists for joining us today and we look forward to your input on the topics before us.

So, unless you have anything further, Rick? I'll ask Brian to kick it off with the first question.

MR. BUSSEY: Thank you, Robert. We had a bit of discussion this morning about looking at the bigger picture and how the various rulemaking streams should fit together and we didn't talk much about the topic of today's -- or of this panel, which is where the dealer and major participants registration and substantive requirements should fit into the overall implementation of the Title VII requirements, so I'd like to start off with kind of this broad question of where the panelists think that registration and substantive requirements for dealers, I think in the first instance, and then participants in the second instance should fit into the overall major categories of Title VII.

MR. PICARDI: I guess I'm willing to get started. Maybe from the perspective of someone that's not entirely certain if the organization I work for is a dealer or a large end user and certainly trying to figure that out and the reason I was willing to get started is because that's one of the threshold issues we need resolved and certainly with the definition of swap coming out and having the recent opportunity to comment on the swap dealer definition, when you see how that looks and how our organization is affected and then if we have to restructure to accommodate it or to be able to participate in the markets in effective ways is real important to us, and we probably come at this a little differently than some of the other participants around the table because we've never been subject to prudential regulation before.

So, for us, we're probably at the end of the train because we're probably the (inaudible) folks, even though we've been in these markets and have some experience with setting up some of these systems, we come at this with less experience in this arena dealing with capital requirements and things -- the new capital requirements and things like that.

So, from our perspective we feel that once those definitions are resolved and the institutional items that were discussed this morning that can take place in parallel, because we do envision no matter what happens, being (inaudible) that participates on those platforms. Having those resolved first will help the regulators get a lot of, first of all, transactions cleared, and secondly, getting the reporting part of the aspect on getting SDR set up will help us because then we can look at the world and go, if we're a dealer, what's not being cleared, how do we need to go about doing it. But in terms of balancing your look to get things implemented and dealing with organizations like ours, we think getting those issues resolved, a process that helps us figure out how to structure ourselves, process the figures out, you know, that lets us then determine how to register, and then one that lets those organizations in parallel get set up will help the commissions also meet the requirements of Dodd- Frank in an economic manner and maybe more expeditiously.

MS. GUEST: I think just to add to the complexity of what he's saying, from my perspective there are an awful lot of our clients who were hearing something similar from the -- you know, lots of phone calls. Are we a swap dealer? We're not really sure what are we, and that there's a lot of uncertainty out there from entities who aren't even necessarily sure that what they do is deal in swaps. And there are some complex contractual arrangements that don't involve ISDAs, not always obvious what the nature and character of that instrument is. And it's important for us to know who it is that we're dealing with and what category to put them in because of course there are other things that then flow from that.

So, I think the registration is obviously something that has to come early, but I think we -- our view is that not everything, necessarily, has to apply on day one and that you can look at some kind of provisional registration. The theme that you might hear me repeat, because I think it sort of underlies almost everything that we think about this topic, is that for almost any piece of the implementation there's really a three-stage process. Stage one is your sort of beta phase or your voluntary compliance phase or your risk-free trial period, we've called it in some contexts, and then you'd sort of have a trigger that moves you into phase two. Phase two is mandatory but with accommodations. Those accommodations might mean that not -- say, for example, in this context -- not all of the rules and things have to kick in on day one. There may be some that I can't comply with on day one, but it would be okay for me to tell you, hey, by the way, I can't comply with this on day one for the following reasons. Some of the kinds of things we've talked about with the commission previously are, for example, technology issues where I have a risk management system that sits in one part of my organization, I want to leverage that to be able to use that risk management knowledge, expertise, and technology as I get this set up.

There may be reasons in some of the business conduct standards why I can't do that. I think that would be something that would be reasonable to compromise to allow me to leverage that because we want to be able to do this, as people observed earlier, in this sort of really safe and sound and practical manner.

I think once you kind of have everybody in substantial compliance you can then look at the reasons why people haven't been able to comply so far. They may suggest accommodations that you need to carry through, they may suggest issues that are sort of fundamental issues that you might want to even look back and tweak the rule, and then you can move to phase three. Phase three would be full compliance for everybody.

But if you sort of think about it in a phased way like that within the phasing, we think that's helpful.

MR. O'CONNER: I would just add that, I mean, there's a lot of talk about when the mandate will apply and when everybody has to have everything done before the curtain comes down. I think as important is having systems and market infrastructure open and available for use, and so I think -- and so, therefore, early registration is important, so I would imagine that you would want certainly the banks and dealers to register as soon as possible.

Having said that, we -- you know, a choice of legal entities is one challenge for dealers. I mean, there are banks within our corporate structures, FCMs, swap dealers, all of which would be subject to the nuances of the final rules once they're out, so I think one prerequisite for registration is the dealers, the FCMs knowing exactly what legal entities they will be using and filing the appropriate registrations.

MR. DIPLAS: I think that's the key issue in what you asked originally. It's not a question for some of us whether Morgan Stanley or Deutsche Bank or Barclays or whoever is going to be a swap dealer. But the issue is which legal entity we think that organization is going to be that swap dealer, perhaps for selling product or not and the discussions, I think, that we have -- as we have seen from our experience with other dealers, there are pretty convoluted discussions taking place internally that we're just starting to understand that some of it, I think, we have pretty good knowledge by now in terms of how the rules will come out. Some of them are quite up in the air and those actually might determine those choices. Capital rules are very important from that perspective and also the coordination with some of those that have also dealt by the Prudential regulators or not because also we're going to be using non-banking entities, so the greater (inaudible) probably would become the most relevant constraint. And having that information as soon as possible obviously is going to guide some of these decisions.

The second thing about -- in the case -- let's say for now we made the wrong decision and we have to back track, we have to be cognizant of the lead times associated with actually rebuilding infrastructure or repapering docs, especially talking about moving existing trades and having to maintain risk-balance books.

MR. TURBEVILLE: That all sounds pretty rational but it's a huge difference between talk about phasing in things because this morning the discussion was all about integrating a lot of different operations, multiple sets, and various layers, talking about which subsidiary is the optimal one for an integrated international bank to use is sort of a different issue, a different kind of issue. And it strikes me -- you can react to it, but it strikes me as that's less persuasive in terms of why something should be phased in or not. It's one thing if you've got to fit lots of pieces together, it's another if you're trying to optimize the subsidiary within your large international group to do transactions.

MR. DIPLAS: Well, it's not simply optimizing, but also understanding what is appropriate based on how some of these roles look. Some (inaudible) might not be appropriate. It's not a matter of being optimal, it's a matter of being actually accurate.

When it comes to phasing if I want to take a step back, our (inaudible) to phasing is that probably it would be guided by six underlined principles. One is to provide enough time for the market infrastructure and the operations to catch up and do this appropriately so we cause no harm, i.e., no market disruption. The second would be to prioritize data reporting to regulators so they can have informed future rule-making. The third would be to phase in the requirements depending on the market participant and the asset class. The fourth would be to figure out within an asset class which actions are going to reduce systemic risk the most and prioritize those. The fifth would be to allow time for adequate testing, and that's what Steve touched on, to ensure that the actual infrastructure is appropriately built to withstand that change that's taking place. And the sixth is that we sequence -- different regulators sequence rules appropriately to ensure that actually market participants, either within the same asset class or that might be delayed in the phasing, et cetera, find the same treatment.

Give an example for the latter, when we're talking about if the prudential regulators come out and say the capital rules or the margin rules for non-clear transaction are X and X is (inaudible) versus the cleared ones, but we have a market participant such as the (inaudible) asset manager that cannot comply on time and has a two-year lead time, that participant would be unfairly penalized.

So, having that kind of coordination, from our respect, is extremely valuable.

MR. HORKAN: And I would sort of add on, you know, as Athanassios said, lots of infrastructure work, lots of things that we'll have to do that clearly we'll want to optimize, but that's clearly not necessarily the main objective of the regulators. But the implications in terms of signing up clients and documenting, I don't think there's any way to minimize how much effort that's going to be. And it's more than just throwing resources at it, and perhaps John can speak to it, but he's going to sign up all his clients and then we have to sign up with them and then link up all with the other participants that we talked about this morning. That's just a large amount of documentation that is required and, you know, hopefully later we'll also talk about standard forms to help maybe implement that in a more efficient manner.

MR. GIDMAN: And, you know, before we know how long it's going to take to get to the end line, what the appropriate sequencing or phasing would be, we need to find a common starting point. And I think Matthew's comments at the outset about, you know, are you an end user, are you a dealer, or are you both, you know, which legal entities within your organizations would best be appropriate, I think there's a general sense of lack of clarity on the part of many types of market participants about what exactly the definitions will be such that we can all collectively determine what the right sequence and what the right phasing would be from a practical standpoint.

And in the cases of an institutional asset management firm, you know, is the major swap participant at the advisor level, is it at the fund, is it at the ERISA account, or at the other account? Is it at the entity level or the beneficial owner? These are all questions that we need certainty before we can determining what the right sequencing should be.

MS. GUEST: I think just to add complexity to that, if you look at an international fund structure, there are still some open issues with respect to how those entities are going to be treated and where CFTC's or SEC's jurisdiction lies. And we were more enlightened now than we were at the beginning of last week about what a swap is, but I'm not sure we're more enlightened about which swaps, in the international context, necessarily count. So, to an extent, I may have the same problem Matthew has where I don't know some of my entities whether or not they are or aren't dealers that would be required to register. So, it's not just an optimization exercise, it's identification of which ones would have to.

MR. ROTH: Can I just mention, there's a logistical element to the registration process, too, that I just wanted to mention because in its registration rule release, the commission raises the possibility of delegating a portion -- all or a portion of the registration process to NFA. And if that process is in fact delegated to NFA, there's two components to it. One is just processing the application itself, and that's, frankly, not that hard for us. We had to make certain programming changes to our web based registration system, but we've already done that to accommodate the new categories of registration. We can process the applications tomorrow if that's what the commission decided.

The second part of it, though, and the trickier part of it for us, is the 4s submissions, because the commission proposed that you can receive a provisional registration, an applicant can receive a provisional registration upon the filing of the application that is in good order, but that as the 4s requirements become implemented, firms then have to make their 4s submissions to presumably NFA so that we can determine whether those 4s submissions are in compliance with the commission's rules.

That process is going to be trickier. We need to know when those final -- once those final rules are adopted, we can finalize the development of guidance for our staff that's going to be reviewing the 4s submissions, but we can't really finalize that process until the rules are in their final form. But in addition to developing the guidance, we're frankly -- for certain of these areas may be somewhat familiar to us but for other areas we're going to have to go outside of NFA and bring talent into NFA that's not currently in-house to review those 4s submissions.

So, you know, our thought was that as the rules become implemented and as the 4s submissions start coming in, I think it could take NFA certainly six months from the date the rules are adopted in their final form until we're really ready to review the 4s submissions.

MR. LAWTON: Hey, Dan, follow-up. Which particular 4s submissions do you think you're ready now and which parts do you think you're --

MR. ROTH: You know, I would think, John, our thought on this is that the submissions regarding the bilateral, the non cleared stuff, is going to be more foreign to NFA than the cleared materials. So, I think we're going to need outside help on all of it, but the 4s submissions regarding business conduct rules with respect to the non cleared transactions, I think, would be an area where we would feel a particularly acute need to go outside of NFA and bring that talent in.

MR. BUSSEY: Just kind of summing up what I think I was hearing, a concern about definitions and about the rule set that will apply to dealers and major participants, but I didn't hear anyone talk about any of the other streams. So, am I to take it that, you know, SDRs, clearing, all the other components of Dodd-Frank, do not -- can go before the registration and substantive requirements for dealers?

MR. GIDMAN: I think, you know, that what I believe is that the definitions are the, you know, the important starting point for all participants, and that once we have those definitions, then we can begin the process of identifying what reasonable phasing and sequencing would be, and particularly when we're looking at complex relationships with multiple sub accounts, different regulated entities and different capital and corporate structure it becomes very important to have clear rules of the road as we start on this process.

The technical difficulty, the time to do things, you know, we're all highly regulated entities. Our biggest firms all have significant infrastructure, but we need to make sure that, you know, there's open access for those participants that are not the largest and that there's an open architecture to all of the new facilities that are coming online.

MR. COOK: I think within the stream of rules around participants, I think you mentioned a couple of predicates to deciding which legal entity you would use. So, let's say we have the definitions in place, and you mentioned capital, maybe some of the SEC requirements, is there anything else that stands in the way of figuring out which legal entity you want to use?

MR. HORKAN: I would just say sort of the implications from an international perspective are quite critical and harmonization with international regulators is critical. I think this is a great first step for harmonization here with what we can control in the U.S., but we all run pretty global businesses. Our infrastructures are set up mostly globally and, you know, managing that dimension around legal entity is something we're actively trying to understand.

MR. PICARDI: I would add that I think also from our perspective how affiliates will deal with each other and the rules around that would be important from our perspective.

MS. GUEST: And just at a more mundane level, I think operationally there can be some complexity just with different time zones depending upon which entity and how the time frames work, may have systems that currently, say, in Asia, that wouldn't be appropriate to put in Asia, I might need to move those systems to a different jurisdiction to comply with some of the timing requirements depend. So, there's just a few mundane things like that that we will need to think about internally but that take time again.

But, again, that's time to get to full

compliance, I don't think that we couldn't provisionally register if that didn't necessarily mean that the full panoply of the proposed rules and regulations applied at that instance. If it's a phased in process then I think we could provisionally register and if we had to switch out the entity, we could switch out the entity and we could get ourselves to full compliance over a period of time.

MR. DIPLAS: With respect to phasing, though, I mean, our expectation is that we would have to make those decisions quite early. We expect that the dealers will be the first ones to be captured no matter what, how the rules look, and we expect to -- there is more (inaudible) probably around the major swap participants exactly as to how many they are, who they are, and how much infrastructure built they will have from their standpoint.

We expect to, if we look at the main kind of themes that we're looking here between clearing and execution, you -- most dealers --

basically right now we have to make probably one fundamental choice with respect to clearing, i.e., do they use one entity as a clearing member or two? Some people will make the choice to use an FCM just simply for client business and probably a banking entity for the principle side of the house. Some of them might choose to actually take that entity and use it as a client of the FCM. So, I think you're going to see these two flavors basically and we've heard kind of things from both sides talking to other dealers. And some of them might backtrack actually at this point so I'm not -- but that is probably the major decision.

In terms of the execution, the same thing will happen. For now most of the execution around swaps happens to be sitting on the banking side of the house. There will be similar systems that have to be built on the FCM side and that's probably most of the time that the dealers will have to dedicate in infrastructure build simply from just starting themselves if, say for example, their execution in the beginning just for dealer trades. The build, of course, is similar, but in large scale when it comes to the client whether we're talking now the client clearing or client trading, et cetera.

MR. GIDMAN: You know, I think one of the concerns that you could have is that there's a rush on the part of market participants to comply and to build out infrastructure, but there's a significant distance between the most technically sophisticated and the largest players and those that are not. And when we look at mutual funds and similarly organized funds, ERISA accounts, and pension plans of government employees, there's a wide difference between the technical capabilities of those participants from the top to the bottom, but many of those participants need the same access to market facilities and to markets as the very largest. They need access to swaps in order to manage their risk, in order to match their pension, income, and assets with liabilities, and to efficiently gain access to markets. And we want to make sure that as there's a rush to build this infrastructure that there continues to be open access to these markets for all participants regardless of size.

MR. PICARDI: I would second John's concern in our space. We deal with, both physically and with financial instruments, entities that have different levels of sophistication and entities that are producers, entities that are -- and not wholesalers, but true smaller end users. And in our travels we've found there's a wide range of understanding or even awareness that when they introduce instruments in the future they, you know, may have new regulatory requirements and so it's important to make sure that that gets out to the folks that we deal with. But also the comment I heard earlier that's important from our perspective is flexibility in this process, and we feel that the commission staff seems to have gotten that message in a lot of the comments that we've participated in by virtue of the concepts that have been raised here and that's important to our sector.

MR. COOK: I think one of the concepts that you guys had put out was that there may be a difference in implementation for the registered entities versus the other participants in the market which seems to be what you guys are echoing and supporting, is that right?

MR. DIPLAS: We thought that was very helpful, actually. The concept document that came out on Friday was very helpful in that respect. And the comments that we have put forward in the implementation plans that we gave to both the SEC and the CFTC reflected the kind of reality that basically different market participants are in different states of readiness and, therefore, there needed to be appropriate time to actually build that infrastructure and we think that the CFTC's proposal is very reasonable in that respect.

MR. GIDMAN: We thought your themes and your questions were exactly right. We thought it was exactly the right perspective.

MR. LAWTON: With regard to

documentation of client accounts, what steps are necessary to get client accounts documented both, first, I guess, on the cleared side and then on the uncleared side? And what kind of time frames do you think we're looking at?

MR. DIPLAS: Well, talking to our clients, we have seen -- I mean, depending on the type of account, there are accounts, more or less single entity accounts, which are probably easy to document with, and there are the multi-hundreds of thousands of accounts type entity that's actually much more challenging. So, the same problem, of course, that we face in actually signing documentation with them they face it internally themselves taking the same documentation to their own clients.

To give the example of a large asset manager that might have 2,000 accounts, then ask the manager if he or she wants to go to 4 CCPs, that means 8,000 documents, and if they want 10 dealer FCMs, that's 80,000 documents. These are not boilerplate documents, clearly, they basically have to be negotiated and they have to go back and present to their clients and to the extent that -- if you think about it even in man hours or man weeks or whatever, one client -- an attorney can do 100 of these a week, which sounds pretty aggressive, we're talking about 800 man weeks.

So, that's the kind of challenge they face on their side. We face the same thing, obviously, from our side. Now, we're, in general, in the business of chasing clients o sign up as many clients as possible and it's very strange to be worried that too many will come at the same time.

If you ask the dealers, most of them have been chasing the same top 50 accounts, so that space among the major dealers is probably 100 accounts. Now, Dodd-Frank is not talking about 100 accounts, it's talking about everybody, so I'm trying to figure out how we're going to sequence those. It's simply a bandwidth issue, not even when we have no substantive disagreement about the rules.

So, we think for some of these larger and multi- thousand type accounts it would be -- they need 18 to 24 months simply to sign documentation.

MR. GIDMAN: I'm not as concerned about the top accounts. I think you guys will take good care of them.

But there are about 157,000 mutual or 40 act or similarly organized funds in the United States along with ERISA accounts and state and municipal and federal pension plans. Each of those, on average, has 7 managers and each of those managed accounts may have 5 to 13 different subaccounts for managing different parts of those accounts. So, very soon you're getting up to 8- to 10 million volume of accounts. Almost all of them have very poor technical capability to be able to comply with these requirements even though in good faith, you know, they need access to those markets and they need access to those facilities.

So, from a phasing standpoint, from an industry resource standpoint, it's not an insurmountable challenge, but it's a challenge.

MR. COOK: Can you just give us some examples of what are some of the areas in which their technology might get in the way of the rules as least as you know them to be now?

MR. GIDMAN: When you look at institutional accounts, typically an ERISA account or a mutual -- an ERISA account is going to have multiple managers. Each one of those managers is responsible for one sleeve of that product set and that product set or strategy may have overlapping asset classes. They may all use swaps, but they may use those through multiple custodians and multiple other accounts and they really don't have the ability to do any of the MSP tests to see whether or not they fall under those guidelines. Even though they're not even close to the threshold there's uncertainty about whether or not they would be required to do those tests on a daily basis. They certainly don't have the ability to look through or look across those accounts that are at third parties, and many of them don't have the technical capability, which is why they hire third parties. They hire consultants, they hire investment advisors, and they hire multiple custodians or other service providers.

MR. COOK: But it's about doing the calculation to determine if you're an MSP that you're talking --

MR. GIDMAN: The calculation is one of the biggest things. When you look at kind of the life cycle of a trade, what they almost all have in common right now is connectivity to the DTC and the Trade Information Warehouse, so about 98 percent of those entities connect in one form or another to the DTC for trade information on swaps. However, with regard to SEFs and clearing and further up the stack, they don't really have the technical capability to do that. And they have the safe harbor to be able to conduct these trades by any means of interstate commerce, and that's what they do. You know, many of these trades are done over the phone and really when we're talking about bottom up or back to front, the one thing that we really have in common at this point is a single trade repository where at the end of the day these trades, and through the lifecycle of the trades, you know, there's a reasonable gold record of it. We're concerned that, you know, there's the potential of fragmentation in this market, which would make it more difficult to bring these records ever together.

MR. O'CONNER: Sorry, just a couple of things actually. I'll make another point on the client side and then I'll talk to the uncleared situation as well.

Wearing my ISDA hat, one thing we hear a lot from the buy side asset managers is that in addition to all of this stuff that John has just been through, there's a huge education process needed at every client to enable them to make decisions as to whether to continue to trade or not in a cleared space, and if they do, which CCP to choose, which FCM, et cetera, et cetera, and that process can't be underestimated and often decisions need to be made that are then ratified by boards (inaudible) client, then that board might meet once a quarter or twice a year, and so there's a time delay there just adding to what John had said.

On the uncleared side, a typical large dealer may have 20,000 derivative clients that are typically executed under an ISDA Master Agreement. Those master agreements often take months to negotiate in the first place and they will all need to be renegotiated. And the reasons for that are to add extra provisions with regard to know your client rules that are coming through Dodd-Frank, so extra representations will be needed there, the suitability representations needed. There are new margin, collateral terms, credit limits, that need to be imposed. And if you -- you know, just trying to put some numbers around this -- if you have 20,000 accounts and there are -- you know, and it takes a day, let's say, to renegotiate each one, which is somewhat aggressive from the point of view of anyone who's looked at these things, and there are 200 trading days in a year, that's 100 man years' worth of effort.

So, now you could say, that's 100 -- let's just have 100 lawyers do it in a year, but then you get into, you know, a bandwidth concern because those guys who would be renegotiating that are the same people who are going to be writing all the new policies and procedures and all the other bodies of work that are going on at the firms as well.

MR. TURBEVILLE: I would have thought that a lot of the provisions, especially if you're talking about corporate -- business conduct provisions, are going to be standardized chunks of language. That's the way the rules actually are written to encourage the potential for standardized chunks of language to make it as easy as possible so that you don't have to sic a lawyer on an individual client for, you know, 100,000 man years of legal work.

MR. O'CONNER: No, no, I agree with that

point and that's why I'm erring on the one-day per agreement rather than three months, which is the, you know --

MR. TURBEVILLE: I understand that. There are some other things you were using, like renegotiating credit limits. What is that?

MR. O'CONNER: Well, no, the rules published two weeks ago require margin --

MR. TURBEVILLE: Right.

MR. O'CONNER: -- in the bilateral space and/or credit limits. Most ISRA agreements with end users outside of the institutional space don't have an equilateral or credit limits right now.

MR. TURBEVILLE: Don't have any -- so, Morgan Stanley actually foregoes credit on swaps in an un-kept circumstance where you actually extend credit to other people without any cap?

MR. O'CONNER: All banks extend credit through derivatives.

MR. TURBEVILLE: With caps.

MR. O'CONNER: No. Well, the cap being the ability --

MR. TURBEVILLE: To call for collateral.

MR. O'CONNER: No, to continue to trade. But generally, certainly in the corporate space, most corporations when trading derivatives with the banks don't have credit limits or collateral agreements in the market.

MR. DIPLAS: I think it varies a lot though, we need to eventually be doing it with the type of client. Hedge funds have different treatment, so leveraged accounts versus unleveraged accounts have quite different treatment to the extent that now the law will require some of these entities to actually now trade with different entities within our own organizations, we have to redo that credit analysis. If the cleared business will go with entity A within Deutsche Bank versus the unclear are going to entity B, those two entities will face perhaps a different risk profile from the clients and they will have to reevaluate those.

Also, the proposed rules say that, for example, asset managers and levered accounts, which until now might not have been paying initial margins for uncleared transactions, all right, now they will.

MR. TURBEVILLE: I understand that.

MR. DIPLAS: They will have to redo a lot of this, so what Steve is talking about is that you have to do a redo of all of those clients and I think one-day is an extremely aggressive timeline, frankly. I don't know anyone that will do that. But --

MR. TURBEVILLE: I'm just -- it's actually a big point because it got to be a lot of discussion around the FDIC rules, but what I'm trying to ask very specifically, and I'm just interested academically, is it common practice of U.S. banks to actually extend credit under derivatives in un-kept amounts to corporations?

MR. DIPLAS: Different banks deal with the clients' different ways. When Steve was talking about extending limit -- I'm sorry, extending credit, that doesn't mean that that extension of credit is necessarily unhedged. We might face corporate end user X at $100 million, just for arguments sake, in a derivative exposure. Our job, and Steve (inaudible) and I have done this in the past, was to actually go and hedge that exposure. So, you might say, yes, I'm extending it, but I'm also taking action to hedge that exposure, and based on the cost of that hedge I will price the transaction appropriately.

So, I think it sounds too simple to just say they extend credit in an unlimited amount. Nobody has unlimited credit.

MR. COOK: Chairman -- that's what I was trying to get across is nobody has unlimited credit.

MR. HORKAN: Well, and one challenge we'll face is we'll have internal credit limits, which I think is where you were trying to go, but the requirement now is for us to set up collateral service agreements with these end users that won't actually be implemented. So, we have to go to our clients and ask for them to sign a document that they're not going to actually have to use based on the rules and that's going to be a challenge for us. Why are they going to want to waste their effort and resources to deal with this?

MR. O'CONNER: Yeah, and just to add a bit more -- so, you can -- looking at a bank's trading portfolio, you can broadly divide that into two halves, the collateralized -- so, what I mean is, variation and/or initial margin -- and then the uncollateralized, and it's generally the case that the hedge fund and leveraged accounts will -- and other dealers, will be in the margined category and corporations and governments will typically be in the unmargined, and while the banks have very robust procedures for managing risk and observing actual exposure versus credit limits, there are no provisions typically in the documents that provide for collateral in that uncollateralized sector.

CHAIRMAN GENSLER: I couldn't help but ask Steve, it's not on that issue, it's the 20,000 clients, if I might. Though it wasn't put in the CFTC staff concepts, if the lawyers were able to tell us that we had a way to phase rules by the size of your counterparty or the number of trades they enter into or some measurement of -- are there easy ways to take your 20,000 and his 20,000, and et cetera, and sort of say you've got to get the more active documents done sooner, et cetera, et cetera? I mean, does it sort of fall into easy ways that are not capricious or arbitrary and the lawyers would let us phase?

MR. O'CONNER: I think ignoring that last caveat --

CHAIRMAN GENSLER: The Administrative Procedures Act --

MR. O'CONNER: I think that there are ways like that of analyzing business according to trading volume or size of clients. So, to the extent you could come up with some fair way of capturing -- I mean, if you're asking can you get to the 80/20 situation, I think, yes.

CHAIRMAN GENSLER: Yeah, I mean, how many of those 20,000 do more than 5 transactions a year or something? I mean --

MR. O'CONNER: That's a good question. Maybe 5- to 10,000.

CHAIRMAN GENSLER: But, I mean, there may be ways --

MR. O'CONNER: So, the numbers come down pretty quick.

CHAIRMAN GENSLER: That might be a helpful thing to learn more from the major dealers if there's a way to -- that said, you know, the top 1,000 customers are here, you know, for instance, which might be -- would the top 1,000 be 95 percent of your business?

MR. O'CONNER: It's probably 95 percent of the systemic risk in terms of credit exposures and --

CHAIRMAN GENSLER: So, I'm going to put out a question and then I'll go back to my seat, but just it would be helpful to know, you know, that sort of whether it's the 80/20 rule, the 90/10 rule, but what number of counter parties really gets a 90 or 95 percent of your book? And then maybe there's a way to --

MR. DIPLAS: I think we should look into that, but of course instinctively it sounds right, kind of, your ballpark, that gets you very close to that. In the past or other situations, but without being subject to the APA, but when it came to voluntary agreements we did take a similar approach. For example, when doing novations, et cetera, novation protocol, things like that, we started with the very active accounts and we want to make sure that those are definitely captured and we can worry about some of those later. So, that would be an appropriate, again, subject to (inaudible).

MR. GIDMAN: It's probably closer to 98/2 than to 80/20.

MR. HORKAN: Two points. One, I would also differentiate between financial clients and corporate end users where, you know, the volume of transactions for financial is going to be much higher but on an exposure basis, corporates will be a more significant percentage.

Secondly, and I don't think it really

came up in the context this morning is, you know, the idea of standards around product definitions and client account numbers, LEIs, you know, that is, in my former role, extremely difficult just for one firm to manage all the different entities that clients like John have. The ability for us to do it as a community is going to be a wonderful challenge that I think some of these SDRs, et cetera, are looking to solve for, but I personally would be of the opinion that, you know, that's going to be after a lot of the execution of this is implemented and it will require a rework which, unfortunately from an efficiency model, is quite unfortunate.

MR. DIPLAS: I think it's challenging but it's actually also a very good opportunity because actually the legal entity identified was a kind of a static data problem that most firms faced and created a lot of risk. To the extent we have enough time to actually do it properly, I think that's going to be some thing very positive that's going to come out of this exercise.

MR. GIDMAN: It's one of the best things to come out of this exercise.

MR. BUSSEY: We've talked, I think, in two ways about distinguishing between similarly situated entities. Chairman Gensler's suggestion about differentiating between high volume clients and low volume clients on the one hand, and then I heard some praise for the CFTC staff approach or proposed approach on distinguishing between, say, a Loomis and a B of A or a Deutsche in terms of size of financial intermediary. Can you talk a bit about how we should think about competition in both of the -- competition and fairness type of issues if we go down the path of distinguishing in those types of ways in our implementation? Or not?

MR. O'CONNER: I think there's a real challenge there, so in other words, if you do look to an asset manager that has, you know, thousands of accounts and there is general agreement that they need longer then to -- then go to the single fund and say, right, you have three months. Is that fair or not? And I'm answering your question with a question, but that's the crux of the matter and without -- perhaps the -- rather than differentiating between asset manager and hedge fund, for instance, perhaps more it should be, what are those accounts that do pose the greatest systemic risk or have the highest assets under management or have the largest trading volumes, and whether that account is a standalone or within a money manager, maybe that is one way of phrasing that.

MR. GIDMAN: Yeah, it may not be the size or the type of entity, it's really from a prudential perspective it's the types of activities and the systemic risk that's introduced by those activities.

MR. O'CONNER: And I think -- sorry, without putting words into your mouth, the other thing we hear from asset managers within ISDA is that because of their fiduciary responsibilities it's hard if you set a target for them saying, you have to have 50 percent of your account list done by date X and then, you know, the rest can follow six months later, how do you go about choosing which -- who -- some might complain if they go first and some might complain if they don't go first.

MR. HORKAN: Yeah, I would suggest sort of the principles of fair practice I think have to be the starting point of all of this effort or else, you know, there will be unintended consequences. I think the things I heard this morning were sort of the roadmap -- set a starting point but have a long enough window for us to get through the window and not have bottlenecks, and importantly, you know, not have us have to differentiate, you know, we're going to clearly treat John the best, but not have us have to differentiate amongst the 20,000 clients that Steven mentioned and, you know, not have to, from an operational perspective, differentiate these clients, you know, for this interim period of time which would then go away. That doesn't seem -- I'm not sure (inaudible) able to do it, frankly.

MR. COOK: Yeah, I think this is a challenge. On the other hand, you know, we don't want to have to wait until the very last client is ready, right. I think this would be a good area for people to think about some more and maybe offer some suggestions in the comment file.

I wanted to ask also on the question of documentation and redoing the documents, and sometimes I think -- I'm not sure whether we're talking about customers or accounts and you may have 20,000 accounts, it doesn't mean you have 20,000 different documents, so you know, I think the numbers can balloon up pretty quickly if you don't talk about them the right way. But even setting that aside, is there a role for industry groups to help facilitate through protocols or standard documentation some of this to help ease the transition in a way that kind of tries to strike the right balance? We're not typically in the business of coming up with legal documents for or between -- you know, contracts between market participants, but it may be that these issues that you're talking about are relatively common across the relevant parties and could be susceptible to some type of industry initiative to address them.

MR. O'CONNER: Yeah, I think that -- yes, absolutely, if there are changes to master agreements that are agreed upon between -- generally agreed upon between all constituents at the market, then absolutely, and there's a history here through the ISDA credit protocols where the whole industry can move on the same day and that becomes far more efficient. So, absolutely, that will be a very useful tool for us. And the idea there is the industry agrees on a structure and then either -- well, generally by accessing a website in some authenticated way, then that can be deemed to be adopted in their agreements.

There will be some components, though, that are subject to bilateral negotiations, for instance, credit limits or collateral terms or perhaps some of the reps and warranties that are needed, but absolutely where there is an opportunity to use a protocol, then ISDA will absolutely be looking at that.

MR. DIPLAS: Yeah, I mean, an example of that is there has been a lot of work that has taken place recently in terms of creating a standard give up agreement for cleared transactions that's being done under the auspice of the FIA and, you know, it has been -- it's a complicated discussion, it's taken us a long time. We're actually practically very close right now having at least a standard agreement that people don't have to actually go redraft every time they want to phase a new account.

Now, as Steve said, there are variables there. The agreement might be identical, but obviously you have negotiated differently between a $10 million hedge fund and $1 trillion asset manager, but at least it saves us from all the effort of redoing all -- the whole document every time we talk to an account.

So, this is probably the most significant development, I think, from that standpoint.

MR. GIDMAN: The combination of the ISDA agreements with the published rules of entities such as the Trade Information Warehouse Deriv/SERV provide a good framework but there's still a fair amount of customization negotiation off of those basis.

MR. COOK: Are there steps we can take in our rules to help facilitate that type of approach? I mean, obviously we need to -- once the rules are out there, should they have things in them like deadlines or other types of milestones that could help force progress on this if it doesn't happen on its own? Or incentivize progress on this one?

MR. O'CONNER: I would imagine that all new rules will have deadlines on them, won't they?

MR. DIPLAS: I guess the deadline is the mandate with incentivized to get things done way before that. I mean, the approach that we have taken as a marketplace has been to take an approach where we're open for business at day X and we mandate a certain practice by date Y, and we can always discuss what is the appropriate gap between those two or interval between those two, but that's the approach we have been taking. Clearly, even from a competitive standpoint among other dealers, we actually want to get a lot of these things done as quickly as possible so we can actually go sell those services to clients.

So, that incentive is definitely there and the dealers actually that can process a lot of this quickly will have a competitive advantage.

MR. LAWTON: What distinction is there between cleared and uncleared trades with regard to the ease of getting your documentation in order?

MR. DIPLAS: Well, the uncleared is already there.

MR. O'CONNER: Yes, but there are these fixes that I mentioned. I think those -- negotiating those modifications to the bilateral, I would propose, would be easier than getting documents in place for clearing because that is very new to the end users and to the FCMs and to the clearinghouses themselves in terms of, you know, client clearing within the OTC space. So, I'd imagine that would be much more time consuming than the changes in the bilateral space.

MR. DIPLAS: Also, from the standpoint of the client -- some of the asset managers mentioned, and again, we have actually heard different asset managers take a different read of this, some of them believe that some -- their investment management agreement might have to be redone because it didn't explicitly contemplate the concept of cleared swaps, so they might have authorization for swaps, but not cleared swaps, which are considered to be a new entity.

As I said, we have two different views on that one, but if that is the case for some of them that would mean a serious kind of reeducation effort with their own accounts before we even get to the FCM type documents. I don't know, John, if you agree with that one.

MR. GIDMAN: I think in almost all cases it will effect the management agreements.

MS. GUEST: I think there's also significant operational component to opening a clearing account versus opening an OTC relationship. I can negotiate an OTC relationship and do a couple of trades and maybe that's fine. In a clearing context the economics are very different and I need to have a certain amount of volume there to make it even worthwhile for me to open that relationship to start off with. And so because there are a lot of ongoing administrative steps, you have to -- even just at the level of sending out account statements and managing the client funds, there's a very different series of things that has to happen in opening that relationship. So it's a lot more complicated and takes a lot longer than even the sort of -- I can't remember the timeframe, Steve, that you gave for negotiating at ISDA, but it typically takes a lot longer and the risks are different.

And I think also in the new world you may have the clearing relationship happening in a different entity than you have the non cleared and depending on how some of the margin requirements and capital requirements play out, you're going to have some complexity around how you manage your overall risk profile with that client. I think it's further complicated by some of the conflicts rules that the agencies proposed because I think there's information I need to share to manage a global relationship and global risk against a global client with whom I may have both cleared and uncleared on a global basis.

MR. TURBEVILLE: The folks that Matthew deals with and I used to deal with a lot of those same folks, a lot of those folks actually do a lot of cleared business already so they were -- they're accustomed to them in some type of energy -- in the energy field, a lot of them do cleared transactions and uncleared transactions. I'm just wondering how many people actually have existing clearing capability that would otherwise -- that do swaps, but they also are not unfamiliar with the world of clearing because a lot of the people I'm familiar with are very familiar with the world of clearing.

MR. PICARDI: We deal with folks that -- well, we do clear a lot of transactions, but we also deal with folks that don't clear and have customized arrangements and so I think those would be trying to think through how that would work under this environment. Those would have to be probably dealt with individually and be time intensive because we also set up master netting arrangements (inaudible) where we'd be netting physical transactions against financials to try to reduce any credit exposure we would have to those entities, so thinking through what's going on, the original question being, which might be easier, clearing or unclear. Just thinking about -- off the top of my head, the portfolio we see, probably those uncleared more sophisticated arrangements would be more challenging.

MR. TURBEVILLE: Yeah, but you do a lot of transactions with people like Calpine and El Paso and folks like that that also do an immense amount of cleared business as well.

MR. PICARDI: Well, we do -- exactly, yeah, no question we do a lot of that business as well.

MR. BUSSEY: Can you talk a little bit about the capital and margin rules across -- there's a number of regulators that are working on capital and margin rules in this space, the CFTC and us, obviously, and then also the prudential regulators and how timing of the various rules will impact -- timing of those rules will impact the timing of overall registration and compliance on the dealer side?

MR. O'CONNER: Yes, so I guess now we have the CFTC and the SEC that will have margin rules but also the Fed and the FDIC. One interesting question or observation that has arisen post the publishing of the rules a couple weeks ago is that from a timing perspective if the Fed and the FDIC move to mandate collateral in the bilateral space prior to the clearing mandate crystallizing for clear trades, that could, itself, accelerate clearing or put -- effectively bring the timeline forward for clearing. And the reason for that is that if a market participant is trading bilaterally in a -- what is a clearable product not yet subject to a clearing mandate, those trades will be subject to variation and initial margin according to Fed/FDIC rules, for instance, and because those bilateral accounts are spread across many dealers, then the amounts of initial margin in the bilateral world would be greater than if they were condensed through one FCM into a clearinghouse for two reasons. One is that you get the portfolio benefit and the other is that the 99 percent 10- day bar prescribed is typically higher than what a clearinghouse would as well. So, there's a double whammy.

So, to the extent that you -- the CFTC and SEC have a -- you know, give a certain period before the window -- before the (inaudible) window closes of a year or whatever the timeline is, if the prudential regulators have a timeline in the bilateral space that is sooner than that, that could crystallize an acceleration of take up of clearing prior to when your mandate actually crystallizes.

MR. TURBEVILLE: And again, that's not actually specifically a requirement of collateralization. In the FDIC -- in the prudential regulator's rules what they're saying is, you have to treat it as if it was a credit extension and set a credit limit associated with the appropriate credit exposure you might want to take to that party. So, I think what you're saying, which I think is quite profound, is that if you actually treat bilateral swaps and the risks associated with them in a sensible, prudent way. You actually would move that business into the clearing context because it's more efficient and less expensive, which I think is absolutely accurate. And it's absolutely unfortunate that we've gone this many years -- and excuse the speech, short one -- without actually recognizing the actual cost of counterparty credit exposures that the FDIC and the prudential regulators have actually forced people to do causing, in your suggestion, this business to actually move into clearing. Sorry about the speech.

MR. DIPLAS: It's a little bit more nuanced than that though in the sense that -- just to give a very simple example. Let's say that based on the three- or five-day (inaudible), the cleared margin would be 1 percent and the uncleared with a 10-day (inaudible) is 2 percent.

MR. TURBEVILLE: Ten-day holding period. It's not always the case.

MR. DIPLAS: No, no, I'm sorry. I'm making up the number just to make the point here. The point is that there is already, as you said, the incentive to move that business to the cleared world. So issue number one is, first of all, is that the unclear trade is actually margined up properly or margined in a way that's actually intended to penalize, i.e., it's not risk proportion.

Second issue is, if you, even though you're willing to take your trade into the clearing environment, that large asset manager, though, might need two years, you're just going to suffer the penalty without having the ability to get the benefit of moving that transaction there. So, that's why we're talking about the -- having some synchronization between when these rules become effective. That is very important, not only here, but internationally.

MR. TURBEVILLE: And I understand the effectiveness. I also understand that the 10-day holding period versus a 3- or 5-day holding period is a judgment call that's made with some rational basis because you're doing a swap as opposed to something that is cleared. So, we can debate whether it's accurately calculated and we can also debate whether the difference between 10 and 5 in a given instrument makes any difference. I think the general principle is a good one, which is --

MR. DIPLAS: We agree. Yeah.

MR. LAWTON: Question: With regard to trades between a dealer and a financial end user, it's a one-way requirement so there's clearly an incentive for the end user to want to move into clearing in that circumstance. What is the incentive for the dealer in that circumstance?

MR. DIPLAS: Does it matter? I mean, if the client wants to actually do a clear trade they will ask for a clear trade. It almost doesn't matter. The client makes the decision as to what type of trade they want to do, so if they have the alternative to clear that trade, it will make economic sense for them to actually go that way. I mean, I don't know.

MR. O'CONNER: And typically the financial end users have two-way variation margin already and already provide initial margin to the extent there's leveraged accounts. So, the transition from bilateral to cleared, in that sense, isn't great. In other words -- I mean, it's a great thing, it's not a great change. Sorry. And therefore, margin -- initial margin may change a little bit, but typically the variation margin is two-way already in the market between financial end users and dealers.

MR. DIPLAS: Apart from the -- you

mentioned margin, but there is also capital on the other side. I think one of the most important kind of elements that's kind of out there lurking a little bit is the work that is done under Basel in terms of the treatment of the guaranty fund contributions of clearing members. There is no mention that this is supposed to take -- it's going to take effect, obviously, in -- whatever -- one or two years, but the issue is that the proposed rule is going to make it very punitive to actually have large guaranty fund contributions. So, if that proceeds as it has been shown, there will be a huge incentive to go rework the actual risk management at the CCP level and alter the distribution between initial margin and guaranty fund contributions.

In certain asset classes, probably it doesn't make as much difference. In some of the other asset classes, such as credits, especially single name credit default swaps that have very fat tails, i.e., large jump to default component, that shift could be very significant, it could basically change the ratio -- increase tremendously the initial margin associated with it in order to reduce the mutualizations for the capital hit. So, this is, again, one of those kind of the great unknowns that we are also trying to figure out basically as we design that system and also as we try to appreciate the benefit of offering those services.

And obviously the same costs will be passed to the clients as well.

MR. COOK: Can we ask about some of the other operational requirements that would apply to dealers and how you would suggest we think about phasing in these? I'm thinking in particular of, for example, about the business conduct requirements, both external facing and the internal risk management requirements and other operational aspects of the rules set around dealers. You know, what do you see as the challenges in implementing those? What's going to be -- is there -- anything jump out as being more readily susceptible to implementation earlier?

What needs to come later? What are the roadblocks to rolling out that regime?

MR. O'CONNER: I think that the challenge with regard to setting up the policies and procedures to ensure compliance with the rule sets is pretty significant. And in the concept paper, I know that bank holding companies are deemed to be pretty good at doing policies and procedures so they can be, you know, the first movers. And I would agree with that, but a lot of the new rules aren't in existence in the bank holding company world. A lot of the Dodd-Frank requirements just isn't there in the bank holding company world. So, there's just an enormous amount of scoping and analysis and procedure writing that needs to go on to cover all those rules, and then systems for education and monitoring compliance, et cetera, is all needed.

As to what components might be implemented before others, perhaps that's something we could get back to you with, do some analysis for you, but, you know, on the client facing side, the new business conduct rules are around providing pre-trade information to clients, et cetera, just is quite a -- I mean, that is stuff that we are doing in our business but to put a framework around that to ensure that that happens on each and every trade does require quite a build of all the aspects I just mentioned.

But I think it would be useful for us all to do some analysis in terms of what could possibly go before others from that point of view.

MS. GUEST: I think that's right. I think you also may find that depending upon how different institutions are structured and which entity does what and just how things function within the institution, you may find that although generically it's easier for me to do it than it will be for Matthew, it's going to be -- certain things will still be challenging for me. So, for example, as I mentioned earlier, something like the risk management systems that sit within one entity that I may want to use in my clearing side, they may be licensed to that entity. There may be something as simple as having to renegotiate a license agreement and reestablish a whole -- that same technology framework, duplicate it, and bring it over to another entity. Those things will take time, but it would be perfectly reasonable for me to send you a note or whoever a note and say, you know, by the way, this piece is something I'm not going to be able to do for some period of time. I'm working on it and we'll get there.

And that's why we were sort of thinking, as I said earlier, about sort of a three-step -- a day one, day two, day three kind of structure for the implementation, so at day two I'm going to be telling you what my challenges are and you're going to then have a chance to see what they are and determine, you know, are any of those things that are going to be ongoing that we may need to tweak the framework slightly for.

I think -- the other thing just to flag, I mean, I think -- you said it earlier in the very beginning, you can't underestimate, as Steve just said, again, the challenge that we face from a sort of compliance perspective. We have traders who have been doing stuff for years and years and they're used to picking up a phone and calling the counterparty and doing a deal. Tomorrow they have to start by saying, who is this counterparty? Is this someone I can even talk to now? If it's someone I can talk to, now I have to think about what I can say to them and what I can't. And if ultimately it's someone with whom I can negotiate a deal, the way that I do it, the way that I book it, the way that I report it, everything has now changed. That's a huge educational effort and it's one that's going to be extraordinarily difficult to design a compliance and monitoring program around.

So, we really need to do a lot of education and training. We need to build a whole new compliance program around what is essentially new activity. And we have a lot of people who have to relearn and I think there's going to be some growing pains in there. And I think it's going to be really important for us to work closely with the regulators for you to understand where we're seeing those growing pains as we go along.

MR. TURBEVILLE: B of A, Merrill Lynch, Deutsche Bank, Barclays, Morgan Stanley, you guys are all clearly dealers, right? I mean, are you guys working on it right now? Because, I mean, I have no doubt on earth that all of you are going to make the cut. You're big enough. So, wouldn't you be working on all that right now and getting all that stuff tamped down? For instance, the whole issue of business conduct issues, right? Educating those guys who would pick up the phone and goof and call somebody and make a deal with somebody they shouldn't be making a deal with. Just a thought.

MR. DIPLAS: Well, yeah, but the "all that" is not finalized yet, so whatever "all that" that is, yes, we're going to work on it, but very broadly, I think the distinction that Robert, I think made was between kind of internal policy procedures and the external business client facing business conduct rules, that would be probably the most accurate distinction.

The former we can probably deal with much earlier, the latter, in our phasing proposals, has been put more towards the end because it will take the most substantive change in infrastructure, compliance build, et cetera, and also change the fundamental nature of the relationship. It will also -- I mean, this is not supposed to be a content discussion, but rather a timing discussion, but also it has the potential to change, to affect whether we can face certain entities or not. That's a business model change that's actually very fundamental. Some things when it comes to sharing different models or certain transactions, might also be something that might have to be done at a market wide level because it says (inaudible) verifiable. So, it's much more a challenge in that segment that you articulated basically, and we think it should go towards the end.

MR. TURBEVILLE: I got it, I got it. I

understand, but I mean, you've been at like 500 roundtables, you're like one of the world's experts in this stuff. I know. The fact is, 99.9 percent of everything -- 99.9 percent, that's an absurd number, but it is a large percentage of everything that needs to be done is already known and you know that you're going to have to do it. So, I would guess that -- what I'm trying to get across is a lot of the information that's coming this way is, god, there's all this stuff we have to do. But the fact is I know you've probably been working on it for months and will continue to because you're really very efficient in sharp outfits. All of you. So, I'm guessing that a lot of this is -- I understand, this takes time, time, time, but a lot of this has already been done and it would be useful to these guys and for the public --

MR. DIPLAS: Well, the issue is that each one of these items in isolation would take minimal time, but we're discussing about 1,000 of these items all happening concurrently. So a lot of this, as I said, even after we agree on the rules and we have pencils down, still has a certain time for implementation. That is the challenge here, not whether you can do one of them only.

MR. TURBEVILLE: No, I got that. I'm not saying that. What I'm saying is that you -- that I would guess in reality you've been working towards implementation for months already.

MR. HORKAN: Yeah, and I think it sort of comes back full circle when (inaudible) said, you know, at the beginning we talked about the multiple legal entities that we're going to have to look to do all these items for and I think we are actively working on and we have lots of, you know, history to be able to implement it. But we have lots of different -- when definitions come and we put our pencils down and we decide which legal entities we're going to do, and we're going to need legal entities for FCMs, for swap dealers, and eventually we'll need it for a push-out entity, we'll then have to implement it for all those.

MR. TURBEVILLE: And my point is that you've been equipped to actually think about that for months and think about it now. I know definitions just came out to some extent, but there were no surprises and none of them affected you, so --

MR. GIDMAN: But the key for sequencing and phasing for all of us is to have clarity around definitions so that we can take concepts and make them concrete.

MR. BUSSEY: We have about 10 minutes left. I just wanted to ask one close out question on this and then touch very briefly on international issues. And the close out question is, outside of definitions, capital margin issues, are there any substantive requirements that we're doing rules on that will drive where you decide where to do the dealer business? Or is it really just capital -- obviously definitions, but then capital and margin that will drive that and none of the other substantive requirements? And I guess it's picking up on something you suggested early on in your statement, Alexandra.

MS. GUEST: Yeah, I think part of the answer to that is probably going to go to your next question, which is the international pieces of it. Certainly in our case we've got a large, complex institution. We do business globally with global clients and these are global markets. So, you know, how some of the other things play out is going to be critical to, I think, the answer to this question, unfortunately.

MR. BUSSEY: But putting aside the international for just a moment, things like how we do business conduct or the CFTC does business conduct, how we do internal risk management stuff, those aren't things that are going to drive your decision where to place your business? I think Gary wants to answer, so I'll let him.

CHAIRMAN GENSLER: I have a question after.

MR. PICARDI: If I could, because that is something that we've been thinking about, not, you know, certainly the international piece is important and capital has certainly been something we look at in terms of the way we're structured, but the rules so far as we've read it seems to be, you know, something we can work with subject to clarifying.

I think the bigger issues are some of these other things that you mentioned, once we get set up, you know, client communications that you were talking about, dealing with special entities. We sell physical commodities to municipalities. Not only do we have a duty to tell them -- that goes beyond even telling them maybe of a material change that might affect the transaction, we have a duty to act as an advisor at the same time we're -- completely new role for the type of organization that we have. So, those things are certainly a concern for us.

What else -- oh, the chief compliance officer, some of the duties that go with that are going to be a challenge for us. When we define how we want to set up our organization, do we have enough dealing activity in it? How are we going to staff it up? You know, maybe we don't and it's not something we want to continue because all the rules that go with that just don't make economic sense. Real time reporting, that's another thing that we've struggled with a little bit. All the pre-trade information, recording -- setting up recording, whose lines do we record if we have to do that. These are things that we have some of that from our trading days, but new people within the organization will be subject to that.

So, there are issues, at least from our perspective as someone coming at this a little farther than the other players, that will make it more difficult for us and that's why we recommend a phasing approach that puts our type of participant near the back end of full compliance.

CHAIRMAN GENSLER: I was just going to mention on this capital point, and it may be that it's not on the website yet, what we voted on last week, but if you look closely at it when you do get a chance to look at it, you'll see that at least the CFTC's proposal is that capital is the same whether it's in the bank or it's part of a bank holding company, it's basically what the prudential regulator is doing. So, at least intent was to be neutral on which legal entity within a bank holding company.

But you'll want to take a look at that and so that issue may -- may go away, then again, if we wrote -- you know, it's a proposal and you'll have to see what the final is and things like that.

MR. O'CONNER: And I think, Brian, from a bank perspective, the main rules are the ones you mentioned, so capital margin definitions.

MR. BUSSEY: On international, I understand there's a lot of interest in how the SEC and CFTC are going to apply or potentially apply rules to international activities, either of local based entities or entities operating overseas, but in terms of looking at the overall landscape of what other regulators are doing internationally, I think with possibly one exception, I'm not aware of any other major jurisdiction that's contemplating a swap dealer or security based swap dealer type of regulatory effort. In other words, if you look, for example, in Europe, I think their focus is on clearing, on SDRs, and on reporting, but they're going to be using their existing scheme for regulating intermediaries in this space and that they're to contemplating anything as significant as what Congress did last summer.

So, in terms of thinking about international coordination issues in this space, is it really just focused on what the SEC and the CFTC decide on jurisdictional reach and so forth? Or is there some other international component that's involved here?

MR. O'CONNER: I mean, ideally we would like all rules to change on the same day and be exactly the same, but we -- that's not the world we're in. So I think Europe will -- the rules set in Europe hopefully will be very similar to the rules set in the U.S. There will be permanent differences and I expect there will be timing differences. But we -- I guess John or I are the opposite to Athanassios and Alexandra in the sense, you know, we're U.S. banks with foreign branches and subsidiaries, and they're European based. My hope would be that the playing field would be level within each market and to the extent that Europe moves or is moving to the same place, then from an extra-territoriality point of view, that those local regulators, to an extent, they are moving towards the same or similar final rule sets, I think that's an important fact pattern that should be recognized.

MR. HORKAN: Yeah, I concur. Sort of the level playing field is critical. You know, we're all, for the most part, global entities, but we are different in a lot of instances. You know, we're clearly a U.S.-based firm, but we have lots of subsidiaries and branches and how we deal with international clients and how is that treated -- having the ability to be either subsidiaries or branches, guaranteed or not guaranteed, you know, making that not be a competitive disadvantage just because we're a U.S.-based firm is clearly something critical and it clearly affects our client bases. I mentioned, you know, we, in particular, deal with lots of corporations who are end users and they'll deal out of multiple jurisdictions as well and not limiting their ability to leverage us as a counterparty because we're competitively disadvantaged for some nuance of the rule relative to a foreign dealer, I think, is really important for them as clients.

MR. GIDMAN: And a key aspect of level playing field is not only geography and jurisdiction, but also that the vertical elements of this marketplace has open access and open architecture for market participants at various levels in the stack.

MR. DIPLAS: I agree with the comments made earlier. I think you'll hear comments from both U.S. firms in terms of worrying about how their foreign subsidiaries are captured here. You will also hear from foreign firms in terms of how

-- whether, by being swap dealers here, all their activity internationally is captured by U.S. Regulators or not, and to the extent that they're also different, that could present a problem.

So, I think as Steve said, we don't expect the rules to be identical, we hope to have harmonious rules and that's probably going to help for most of these cases.

To the extent that they diverge, we have sometimes even practical issues with facing a certain client in terms of whether we're trade in a certain jurisdiction or not. We might be in a Catch-22 situation that either we would break the U.S. law or the European law. That would be pretty bad.

So, that's something we hope, basically, to achieve. I think that's kind of the most important element here. I mean, big picture, we're moving along consistently, I think, with the elements you articulate towards the reduce of systemic risk are similar in U.S. and Europe, so that part is encouraging. But kind of some of these details and actually having -- working out the nuances as to how far the reach of each jurisdiction is, is actually something very important.

The second part, which I think is critical and was touched upon on the first panel, is the issue of data and I think data repositories. Again, we would encourage you to have a cooperative agreement with other regulators to ensure that for example the single report (inaudible) we have started with works internationally and that will give you a full picture of the risk activity internationally.

We want to avoid fragmentation and creating silos of data that would be disadvantageous for both us and you at the same time.

MR. GIDMAN: That's really the biggest risk I think a lot of market participants see is the danger of fragmentation. And starting with, you know, a good solid foundation at the repository would be helpful in building out the rest of the infrastructure in a way that's interoperable.

MR. COOK: Great. Thanks. With that I think we'll bring this panel to a close, and, again, want to thank our panelists for sharing their time and thoughts with us today and we'll take a 15-minute break and come back at 2:45 for the last panel of the day on connectivity and infrastructure issues. Thank you.

(Recess)

MR. SHILTS: If people want to start taking their seats we can get going here in a minute or two.

Okay, I think we'll get started with our third panel today. This panel will address various issues related to connectivity and market infrastructures. We want to consider what changes need to be made and the timing of these changes to effect the necessary connectivity between and among clearing entities, trading platforms, and data repositories, as well as the need to effect connectivity between and among the market infrastructures and market participants. We'd also like to explore the time and resources needed to establish connectivity and either to modify or build these new infrastructures.

Finally, we'd like to consider issues related to the interrelationship of our final rules and the timing and how they should be sequenced or prioritized.

Before we begin, I think we'll go around and introduce everyone on the panel. Again, I'm Rick Shilts, the director of our division of market oversight at the CFTC.

MR. CURLEY: Peter Curley from the Division of Trading and Markets at the SEC.

MR. HABERT: Jack Habert, Division of Trading and Markets, the SEC.

MR. CUTINHO: Sunil Cutinho from the CME Clearinghouse.

MR. OMAHEN: John Omahen from SunGard.

MR. AXILROD: Pete Axilrod from DTCC.

MR. CUMMINGS: RJ Cummings, Inter Continental Exchange.

MR. FRIEDMAN: Doug Friedman, Tradeweb.

MR. LEVI: Ron Levi, GFI Group, representing the WNBA.

MR. O'CONNER: Steve O'Connor, Morgan Stanley.

MR. GOOCH: Jeff Gooch, MarkitSERV.

MR. COOPER: Adam Cooper, Citadel.

MS. BEARD: Kathryn Beard, BlackRock Financial.

MR. LAWTON: John Lawton, Clearing and Intermediary Oversight Division, CFTC.

MR. SHILTS: Just to get started, maybe kind of a general question just to get responses as to what steps related to connectivity infrastructures would be required to establish all the various necessary connections among clearing entities, trading platforms, and data repositories? Just kind of in a general sense to get going.

MR. GOOCH: Do you want me to kick off there? I think there's two types of work needed to be done. I think one is building physical connectivity and I think as you have mentioned on some of the previous panels, yeah, in certain markets we're largely there, most of the major players in the credit markets, the interest rate markets are connected up. Certainly we have most of the CCPs connected to those networks and increasingly most of the execution platform (inaudible) as well.

I think if you look at the requirements in the draft rules that are out at the moment, they require more than connections. They actually require a bunch of timeliness requirements, which in themselves, I think, require business process changes, particular the fund managers. So, I think in terms of effort, the wiring is largely there. There will be some tweaks needed, of course. But it's really around how do you get information into that network in an appropriate timeframe. And there's a lot of practices at the moment. You have fund managers entering allocations on to trades later in the day, for example, which are very difficult to comply with when you need to have confirms in 15 minutes, or clearinghouse entries in 15 minutes, which happen at the fund allocation level. The need to take very complex bespoke trades and put them onto networks electronically within 30 minutes or whatever the timeframe is, those are things which are all possible but are very big changes. So, I think, you know, the hard thing to do is to get any information in the right timeframe. The network itself, for some of the asset classes, are largely there. For others like the foreign exchange, it's got more work to do. You know, they're in a very different place.

MR. CUTINHO: From the CME's perspective, in terms of -- I'll echo what Jeff had stated -- we have connectivity to several platforms. We have an API. The API is extensible, it can handle the asset classes, we've demonstrated that. I think the most important is timing. We do -- we can receive trades in real time, we can respond in real time, but Jeff's point is around allocations, so if those have to be done in a timely manner, then it's based on user behavior as well as platform support.

MR. AXILROD: Yeah, I guess I would say, oversimplifying, everybody ought to be connected to everybody and it's too easy to do to have that be an excuse to delay implementation. And what I mean by that is, when -- you know, it's a fairly well established principle now that SDRs should not be vertically bundled with anything else, needs to be completely neutral as to where they can take trades -- as to who can provide trades, and essentially an SDR should take trades in whatever manner any market participant who has the reporting obligation wants them to take it as long as it's compliant with the, you know, timing provisions. And I think the same thing is true for the market infrastructures. DCOs and SEFs ought to be able to send trades to whichever in the other horizontal part of the infrastructure needs them according to client wishes, and I also think they ought to be governed separately to ensure absolute neutrality and no vertical bundling. But it's too easy to put these connections in to have them be a gating factor.

MR. LEVI: I think it's very nice to say we should all be connected to everyone. I think at each particular part of the equation that there will be many participants, many new entrants. The SDRs that we'll connect to first will probably be the incumbents. There's obviously going to be many new entrants and which ones we connect to will be dictated to by our customers, which one they direct us to. We're going to have to make choices in order to reach whatever deadline is made.

MS. BEARD: From a buy side perspective, we have to connect to many different platforms. And to adapt easily we'd like to see standardization of technology so that messages, infrastructure, and technology are the same to the point that it is almost a plug-and-play, and it will greatly eliminate the amount of time it will take to connect up to these various platforms.

MR. O'CONNER: And from a bank

perspective, I also -- I concur. And I think there's going to be an enormous amount of data flowing around the market and to the extent the industry can work together on unique legal entity identifiers, unique products identifiers, and unique transaction identifiers, then that is going to lay the groundwork for that flow of information. And I agree on the open access point that was raised before and was just raised again. And I think that there should be unbundled access at all layers to all parts of the infrastructure.

MR. COOPER: I would just echo all the comments but add maybe an optimistic note on top of that which is to say that all of this should be capable of ready scalability, because very quickly I think we will see that the volume and the flows increased dramatically.

MR. CURLEY: And maybe just expand on what you're saying, Steve. What work has been done in connection with some of those protocols to this point? You mentioned the legal entity identifier. What other work is in progress there at this point?

MR. O'CONNER: I think we're at the beginning of that process. I think legal entity identifier, I mean, work streams are being formed around the industry and we need to focus on that. And I think that the product and transaction identifier is somewhat lagging. I don't know whether Jeff would add anything there.

MR. GOOCH: I think that the key thing identified is a certain amount exists at the moment. For example, I think we have about 25,000 entities on our system for the rates and credit market. Most of those I'd have big codes (inaudible) tend to use the (inaudible) or DTCC warehouse identifiers we tend to use in the credit market. So, mapping those to whatever the various industry groups to choose as the official one is relatively straightforward.

I think transaction IDs, again, TOW issues those in the credit markets. We have similar ones in the rates and equities markets. We (inaudible) platform. I think that that can be extended. It can map to some new format.

I think product identifiers is probably the thing with the most work to do given the sort of interaction between product identifiers and public disclosure. That's quite a complex thing to work through and I know (inaudible) been thinking about that. You know, our view is we will just carry and generate whatever is required once the new rules are clear.

MR. CUMMINGS: I think one of the things about any product identifiers is that regardless of how this identifier ends up being generated or what the source is, it's an industry group. Those product identifiers, for instance in the credit market, it's standard, it's the red ID. That ID shouldn't come with license restrictions where other counter parties are unable to obtain or have to pay a prohibitive fee to get access to use that ID and distribute it around the marketplace.

MR. O'CONNER: Yeah, I'd agree with that. And I think if there is too much insularity or things of the nature RJ just described, then you sort of get into a bespoke environment in certain sectors of the market that doesn't allow for interoperability in the future or fungibility. For instance, if a client wants to change a clearinghouse if the things are too bespoke around one clearinghouse versus another, then that's harmful to liquidity. And I think that to the extent there is this bedrock that we all agree upon of the identifiers, that that provides a framework for more fungibility and that holy grail of interoperability, which people talk about but may be some way off.

MR. SHILTS: I have maybe a step back for a moment. I mean, we're talking about connections in various ways, but maybe just to back up a minute, at least for me, to explain, what exactly do we mean by establishing these connections? Are we talking -- is it some sort of like secure Internet connection? Or does it vary depending on the different types of market infrastructures and participants? And who does this? How long does it take to get done? Are there bottlenecks? I mean, just kind of more the mechanics of that and what we should be focusing on in implementation.

MR. GOOCH: Okay, I think there's one area in the current rules, which are slightly problematic. I think the CFTC and SEC have taken different approaches to that in the rules. If I grossly oversimplify your two positions, I think the SEC have largely said, it doesn't matter how it's done as long as the information flows to the right place. I think the CFTC have laid out relatively sensible ways of the information flowing in particular cases but taking choice away from participants. You know, I think given that networks exist, people should be allowed to use what exists or use something different if that's better. I'm not here to argue one particular model's merits over another. I think that's for me and others commercially to make the case for customers.

But I think the rule set should look at it and say, things have to be connected, there has to be some of the open access requirements people have talked about, there has to be freedom of information for certain IP, that all makes sense to write rules about. And if we have a set of rules like that, I think, you know, within the existing networks and the options are being created by people, you can deliver what's needed relatively quickly.

If we start dictating different solutions and different scenarios it, A, gets quite complex, some participants, you know, around this table would actively advocate some of those new models and maybe they are commercially the right solution and they'll win out in the marketplace. Others will be prevented from entering certain markets because they can't build the infrastructure themselves, particularly some of the new SEFs, I think Chris Edmonds mentioned lots of new guys he's never heard of trying (inaudible) SEFs. They're not in a position to build lots of connectivity themselves, it's a massive barrier to their entry to the marketplace if they're required to. If they want to, fair enough, they should be allowed to.

And the final thing I'll say is about regulation of that connectivity and the SEC has taken a view that how it's done they're not too involved. They want to regulate that through these new clearing agency structures. The CFTC has gone down a different route, not regulating it but being more prescriptive. I think some more commonality there would make it easier to deliver.

MR. AXILROD: I think between infrastructure providers, you know, direct computer-to-computer links using nonproprietary commercially available protocols should be fine and people should not be limited to just one. They should -- the infrastructure provider should be able to support several or they probably shouldn't be in the game.

With respect to connectivity to market participants though it's a very different story. You know, there -- as mentioned before, there are thousands of market participants that access swap data repositories at the moment. My lawyer isn't here but I think the statute -- the Dodd-Frank Act itself puts on a swap data repository a requirement to confirm all information submitted to it with both parties to the trade. There are a lot of ways of doing it, but by far the vast majority of actual market participants, as opposed to, you know, the 92-2 rule again, they really don't have the wherewithal to connect up CPU to CPU, for instance, and there really needs to be, for smaller participants, sort of a GUI or a secure web connection or something that doesn't take a lot of technology to hook up to.

And the other thing that people sort of underestimate here, there has to be enough customer service for these thousands of players so when they see something submitted with their name on it that's incorrect, they can switch it. And if they've got a problem, you know, notifying the repository, hey, this is incorrect, they've got to have a number to call up, says I can't do this. So there has to be a fairly large customer network and a fairly large capability to do customer service as part of that connectivity, both on the customer side and, by the way, on the side of the other parts of the infrastructure.

MR. FRIEDMAN: Yeah, I think that's why you have to start the process first so you can identify the players and so that the market participants know who they need to connect to if they're not already connected and not already using their pipes and plumbing, and that way you can sort of define the universe for the market participants. And if those venues, the registered entities -- SEFs, DCOs, SDRs -- are all working with each other on a fair basis so that those market participants have fair access to get to those different -- whether it's DCOs or SDRs through a SEF, they know where they need to work -- who to work with if they are not already working with them.

MR. CURLEY: And just to play that out a little further, so are these types of technologies the ones for the customers you were describing, Peter, are these appearing now in the marketplace? Are they starting to become available? Or are there steps that are necessary --

MR. AXILROD: All of these connectivity technologies that I've referred to and that I think others have referred to, exist today and are being used today by pretty much all market participants, all participants in the swap market as far as I know, or most of them.

MR. CURLEY: And this includes the GUIs and these other more end user friendly type of technologies?

MR. AXILROD: Yes.

MR. CURLEY: Good.

MS. BEARD: Yeah, but from a connectivity perspective I would argue that it's not as easy as everybody's making it out to be simply because these protocols are out there. They're not being used consistently across the different platforms. So, it will be building a new interface over and over and over again unless we have consistency across platforms.

Secondly, much of the infrastructure that is out there needs to work for all market participants, so, you know, not a dealer-to-dealer market. It needs to work for the buy side firms as well as all market participants to be efficient.

MR. OMAHEN: I would just reiterate a little bit of what Kathryn said. Even if you have a protocol like extensible markup language, that it seems that is being used repeatedly, how it's actually implemented can differ greatly between clearinghouses and market participants. So, the piping may be easy to establish, but making the sense of the data going through that piping remains, I think, a significant challenge.

MR. AXILROD: And to that I'd add, that's correct. There really has to be sort of a common, for the lack of a better term, messaging protocol or messaging choreography where certain messages get sent from one place to another at particular timeframes and messages back to satisfy various Dodd-Frank requirements. We've been focused on the SDR end of that, and I think if those are different from platform to platform, it's going to be almost impossible for the market participants to use them.

And also to Kathryn's point, the payload, in other words, what's in the messages, pretty much has to be common again or else the market participants aren't going to be able to use it. Now, it can be common -- if it's computer to computer it's this payload, if you're using the web it's a spreadsheet with this format, but, again, if there's too much difference from platform to platform it's just going to be a mess.

MR. SHILTS: But do you have any suggestions or thoughts on how that could be made better so that it doesn't create the delays you seem to be suggesting?

MR. AXILROD: Well, maybe I can defer. I mean, I think IDSA has done a very good job with FPML and that sort of language to have a common way of talking about most swaps. There are some swaps that aren't covered. I think most providers can take spreadsheet information and translate it to FPML. I think it's largely there.

MR. CUTINHO: One of the things on what we have done is when we launched a service for interest rates, for example, we worked with ISDA and the FPML group so if you look at the latest spec, the risk API is a part of the spec. The clearing flows are a part of the specifications so I think this is -- we can solve these issues.

In terms of workflow, what we have done is for platforms we have extended the workflow we've already had to cross other asset classes, just allowed the API to support different payloads depending upon whether it's a listed derivatives business or an over the counter business. So, we do support an extensible API standard. I think one of the most important things for us, or learnings has been that working the industry group, if we put a service out there, it will end up in a very standard fashion as Kathryn has explained.

MR. AXILROD: The one thing that isn't

there, but I know firms are working on, are the sort of real-time reporting formats which are smaller templates and I think it's fair to say that for paper confirmed trades that are non-standard, you know, there is nothing really for the primary economic terms that's out there and we may just have to sort of have a link to an actual text image that you can read to get beyond sort of the basic data. But I know that the market participants, particularly those with heavy reporting -- I guess it's everybody because if you don't report you still have to verify -- are working quite hard on developing a standard real-time reporting template which is sort of based on the CFTC proposed rules. And I think it behooves all of us providers to support that effort and use that template.

MR. GOOCH: Yeah, if I can continue the (inaudible) just to keep Steve happy, I think it would be a shame to move away from FPML at this point. I think we have, you know, sort of on our platform about 2,300 (inaudible) either sending

FPML or using spreadsheet conversions to generate it; you know, about 98 percent of the credit market; about 80 percent of the interest rate market. So that produces a pretty solid base as a common platform, as Kathryn mentioned to do things. It would be a real shame (inaudible) different SEFs, different DCOs, different SDRs all creating different formats, everyone having to connect to everybody. I think at the moment, whether you do it through a neutral (inaudible) like us or through our other providers, you know, keeping that common (inaudible), I think is very important.

MR. CUMMINGS: Just to add one additional point. I mean, I think it's probably a bad idea to be overly prescriptive in the application language that we use for what amounts to a relatively small amount of asset classes, each one have a primary protocol that's in use, widely accepted and adopted by the market participants. What I will say is that for commodities, for instance, FPML is not used at all. It's 100 percent FIXML following on with the experience in the listed futures markets.

So, to be prescriptive for a protocol at this point is probably premature.

MR. SHILTS: What's kind of the timing considerations we should have in terms of coming up with these -- the industry coming up with these protocols to facilitate reporting?

MR. CUMMINGS: Coming up with the protocols? I mean, the protocols already exist --

MR. SHILTS: I mean, it's where they're widely adopted and used.

MR. CUMMINGS: I don't know that the adoption is much of a problem. I mean, if you try and find a universal protocol to fit across all asset classes, we'll be back here in about four years trying to figure out how to get another universal protocol to fit all asset classes. If you lean more to the strengths of each asset class, and the providers that are there and the protocol that is widely being used, you're not going to have a very long walk to get these implemented, as Peter said earlier.

MR. GOOCH: I think coming back to my earlier comments, I think the connectivity largely exists, you know, there are things that have to be changed, (inaudible) types added, but I think most of that from a sort of central provider perspective is on a six- to nine-month timeframe, it's not years to fix that. The bigger change is getting the small participants who have not historically connected to connect and getting everyone able to submit data within the timeframes required. I mean, I think the 15-minute timeframe creates rework for almost everybody. You know, if we were at sort of four hours or something then, you know, most dealers would be comfortably with inside that without any problems at all. I think it a little bit depends on how quickly, when we can phase in -- how quickly people submit data would pretty -- make life a lot easier. The basic networks there -- though I would agree with RJ, I think (inaudible) commodities and FX is slightly different cases and maybe slightly different decisions should be made there.

MR. AXILROD: I just want to pick up on one of Jeff's points. In terms of timing, I don't think market participants, although they can correct me, can produce primary economic terms as you've defined it any faster than they can produce confirm information, so those will -- as a practical matter, those will probably collapse into each other just because of what's -- it's the same information, so if a firm can produce one, they can produce the other more or less.

MR. SHILTS: And Jeff, you said six to nine months. I mean, what's -- could you repeat that what you were talking about?

MR. GOOCH: I was basically looking at -- I guess a company's job is to provide these networks at the moment. If you need to tweak out a network to add some of these extra message types, send them through to the SDRs, you know, we have most of the DCOs connected already, a little bit more SEF connectivity, that itself is not a major project. So, am I at the bottleneck in the context of six months, maybe nine-month timeframe? No. I mean, that's something that we can get done relatively quickly.

Can everyone be connected to it in those timeframes? Well, most people already are other than sort of (inaudible), but are all of our users in a position to submit all of the data that quickly? Probably not given these issues of pre-allocation. Many fund managers don't do pre-allocations. Many of them do end of day compliance checks to finalize allocations, for example. There's some quite big business changes some of those guys would need to make in order to submit within the timeframes, so it's not that the connectivity is the constraint but actually the availability of the data in some cases. That, I think, would take a lot longer but, you know, listening to some of the earlier conversations today, those participants may have that period of time.

It would certainly, from my perspective, a lot of the major dealers, once we define them, probably do have most of the data available relatively quickly. If we could sort of work down the user list and the sort of financial players and then sort of corporates, who are probably less likely to have anything at the moment, you could imagine some sort of phasing around that over a more appropriate time period.

MR. CUMMINGS: Yeah, I would agree with that. I mean, if you look at multiple SEFs connecting up to a single DCO or maybe two DCOs in some cases, aside from the work flow items that Jeff alluded to, there's also additional rules that I know are under consideration that a DCO would have to impose upon SEFs. And their conformance testing in order -- once connectivity is available there's a relatively lengthy conformance process. And one of the things that DCOs are worried about with multiple SEFs connecting to them is the issue of pre-trade execution limits on the SEF itself. How does the SEF inoculate itself against big market shifts, large price moves, and not pass those into a DCO and, in essence, shift the risk where those entities are interconnected between each other?

MR. LEVI: We're also fairly worried about the testing and you guys having enough resources to get us up and running quickly. In terms of risk limits, once again, we'll take our lead from you. We have credit filters on most of our systems. We can limit how much any particular entity trades, so we're fairly confident we can come up to scratch on that one once you tell us what you need.

MR. CURLEY: And just to round that out, what are the types of timeframes associated with the testing between infrastructure providers that you would anticipate?

MR. LEVI: I would say that six to nine months would probably get us through most of it. I think each connection would take -- depending on the complexity and I'll stick my neck out -- between 6 and 10 weeks, but then you're going to have to do quite a lot in parallel and you're going to have to do some front ones before you do some back ones and some back ones before you do some front ones. So, I think Jeff's times, six to nine months to tweak everything can get everything in line, seems relatively fair.

MR. OMAHEN: I'd just like to add a little bit here. I think we're really focusing on transaction reporting here. There is an aspect to this whole business post clearing, that is the position keeping, position maintenance. You know, that sector there is much less agile by comparison for the transaction reporting side, and looking from past initiatives that have taken place there, such as the Option Symbology Initiative by the OCC, the launch of security futures, these are major projects that literally were multiyear projects. They weren't in the range of six to nine months, they were actually more one to two years from inception to final go-live. So, you know, in that sector you're talking about more than just transactions, you're actually talking about brining in additional data from clearinghouses, you're talking about sending positional data to regulators, and there's just a lot more of that work to be done.

By necessity with a lot of the new asset classes with cleared IRS, cleared CDS, these systems increasingly depend on data and processing from clearinghouses, so what you've also got is a sort of increased interdependency of these systems and increased data flowing between them all of which is, as we discussed with transactions, not necessarily standard between different clearinghouses and providers and represents, you know, a challenge because each has to be built coded to and integrated often in existing clearing infrastructure that is not necessarily, as I said, the most agile and able to change.

MR. CUTINHO: The one thing we'd like to add there is -- I agree with John here. We went through an experience trying to launch both CDS and rates with SunGard. It's important to keep the back office infrastructure in mind. When we say we are ready and in terms of our APIs being open, that's where we are going. And we believe that having a standard API at the back end for both real-time reporting of trades to the back office as well as end of day position keeping, I think it's important to have standards, especially for the back office venders.

What is also very important is that now we are seeing a lot more players in the marketplace. A lot of derivatives players who traditionally did not do bookkeeping for firms are now entering the space and they have started to certify, which is very encouraging. So, that is what an open API will do, and especially if the schema is widely available on the web and there are no restrictions to actually certifying and testing with a firm, then you will see a lot more players coming into the marketplace.

MR. HABERT: Just a follow-up. You mentioned the to 10 weeks to develop the connections, what actually goes into that connection if you can flesh that out? What are the steps?

MR. LEVI: Once you build your API,

which probably takes you longer depending on the complexity of your system, it's a question of connecting one API to the other API, for example, our SEF connecting to Sunil's DCO. It just takes time for testing, takes time to check for confliction, make sure everything runs smoothly. It's not necessarily difficult, it just takes time because it's a process. It's testing, mostly testing.

MR. SHILTS: And is that all internal to each entity that's being --

MR. LEVI: Well, you have to coordinate, so if I said, I'm ready tomorrow to start, Sunil, and he said, look, I'm really sorry, I can't get you on until October, I have to wait for him. See? The big issue with all of these things, with all this interconnectivity, is having -- each person having the time to connect to everybody else. If there's 20 new SEFs, the buy side may want to connect to some of those SEFs, but it's when they have the time. It's the same with the DCOs, it's the same with the SDRs. It's a question of prioritizing which ones you're going to work on and hoping that your counterparty has time for you as well.

MR. FRIEDMAN: Yeah, and I think we're already connected to CME and ICE and LCH and we're clearing trades with them, it's just a matter of tweaking or modifying the field so that if there's new information that needs to be passed to each other that that's done. But, you know, a lot of that connectivity work is done, it's just a matter of defining the rules and the fields that are necessary to effectuate what needs to be effectuated and tweaking those to get it right.

MR. AXILROD: I must say that a lot of the testing just has to do with the number of use cases and there's always many more than you think even as -- you know, I'm just reporting a piece of data from one place to another, you know, what does the acknowledgement back look like or if you're not using a guaranteed delivery process? What happens if there's an invalid field? And that's just pretty straightforward stuff. When you have more processing as opposed to something where a clearer might or might not accept the trade, it gets more complicated and all of that uses case testing sort of increases the time exponentially as you get more and more use cases.

Having gone through this more times than I care to remember, it just takes longer than you think, especially since the whole industry has to do it at the same time.

MS. BEARD: I would agree with that and taking it even further upstream to SEF connectivity, from the buy side perspective we have started meeting potential SEFs and talking to them about connectivity, and the lack of data standards around the technology has forced them to all develop their own specs in speaking to us and they're not consistent and they don't have the same data and they don't have the same workflow associated with them, which would mean every SEF that you connect to, you're going to have to build a separate interface. And that's where we can get ahead of the game and develop a standard protocol for these SEFs so that we can improve the ease of adaptability.

MR. SHILTS: And who would be developing that standard protocol?

MS. BEARD: Well, to Jeff's point, I mean, there's ISDA that can do it. You can form a working group.

MR. GOOCH: Yeah, I mean, certainly, to clarify my earlier comments, yeah, I'm very much focused on post- trade, so the pre-trade stuff is much more complex, issues of latency, fortunately not my problem, but there's a lot of work to be done there.

MR. LEVI: I would say it's fairly difficult to have a standardized link in because the functionality of each produce and each technology is very, very different. Something that one SEF can do may not be something that another SEF can do. What do you do? Do you go to the lowest common denominator and miss out on all the huge development dollars that have been spent in the past years to develop better technology?

It's a difficult conundrum.

MR. SHILTS: It sounds like, I guess, one of the key concerns is that each -- whether it's the clearing organizations, the SEFs or participants, it's just devoting time from their staffs to work with all these other parties that they would be connecting to, and that would take time.

Are there any other obstacles in terms of hardware that has to be bought or just something else that would be driving this? Something we should be aware of that would affect implementation? Something beyond the time spent for each individual entity to have to go and work with all the other entities?

MR. GOOCH: I think a little bit depends how you choose to connect. If you want every participant to connect directly to every other participant, then you're going to get a lot of hardware, a lot of dedicated lines, a lot of cost built in. What tends to happen in most marketplaces is you get middleware vendors stepping in in the pre-trade space. People like Ion are very active, Logiscape in the FX space, there's a number of guys who specialize in that to try to avoid that problem. In the post-trade set there's ourselves, (inaudible), SunGard, there's a bunch of others that tend to get involved. You know, what tends to happen is people find the cost of that network prohibitive. In certain cases it's justified. Generally people end up with, you know, a vendor stepping in to avoid all that cost. You know, I think some flexibility in the rules to let customers make their own choice around that, I think, is what's needed and then people will find the cheapest and most effective way of getting the job done.

MR. AXILROD: I was just going to add, the -- I mean, in a way, you know, the providers sitting around the table are not going to be the gating factor. Since every market participant really has to be connected to at least one part of this infrastructure, since every single trade has to be reported to an SDR. And information has to continue to flow about that trade over the lifetime of that trade. In a way, if you want to get this done quickly, the industry sort of has to go student body left or student body right. If half of them go one way, a third go another way, and a third go some other way, I think the odds of getting data sets that are complete and accurate and where the integrity is reliable go down. And so I think that's really -- since this is in a lot of cases -- in some cases, as Jeff mentioned, a lot of the work is done. The rates market is about 70 -- what did you say? 80 percent electronic already? -- it just happens to be in markets, not at somebody acting as an SDR. Credit markets 98 percent electronic. I think -- I don't know what -- I think FX is next in terms of the amount that is electronic.

But to the -- as long as they're in place and everybody can -- you've got to get everybody to use it the same way, you know, several thousand participants globally, you can make it. If they're trying to do it differently, it's going to be a problem. So, leverage what's electronic first and then gradually move back into things that are more paper and really the best thing I think that the regulators can do -- it's not my job, but, you know, there was a lot of pressure put on market participants to electronify what was previously paper over the years. That's paid enormous dividends and the more that regulators can get market participants to electronify what's electronifiable, the better off you'll be and the better data you'll get.

MR. COOPER: It just seems to me also I'm hearing that it is difficult, it will take a long time, but nothing sharpens the mind like a deadline. Right? So, with a date certain in the sand, and the industry groups with all constituents and stakeholders around the table, I'm sure we can make great progress.

The other thing I would say is I think that we can borrow from existing regulatory regimes where reporting obligations are imposed, in many cases, on the clearing firms. So, in fact, it's not literally every single participant in the marketplace at any given time has to have complete scalable reporting obligations. I think that there will be reporting parties who will be responsible on behalf of their clients. Maybe the clearing firms are the most natural candidates for that. But I do think we can leverage, you know, some of the kind of market structure that's being developed to enhance and facilitate the build out of these reporting regimes.

MR. CUMMINGS: I would agree with those statements as long as it's by asset class. You know, to say that we need a uniform protocol across all SEFs, I think we need to focus on it by asset class because surely the commodities space is 100 percent FIXML. We do trade capture reporting to the CFTC today in swaps, in FIXML per your guidance. We've been working on that for several years now, so to move to something that isn't native to an asset class is probably a mistake, if you want to get things done quickly.

MR. AXILROD: Yeah, I would second the

asset class part, each asset class is going to have its own rules, but I'd put in a note of caution about the willingness of people, especially since -- willingness of people to let somebody else take over their reporting obligations completely. They're still statutorily on the hook and even buy side firms and corporate end users who, if they do trades with dealers that are U.S. people, don't have a reporting obligation. When they do trades with dealers that are non U.S. people they have a reporting obligation and they also have an obligation to correct misstatements that have been reported on their behalf. And I've had a number of conversations with even corporate end users who are basically saying, okay, this is a serious obligation, it's nice that so-and-so says he can report everything for me, but I want to have control over that. And I think there ought to be a way of letting them have control over it if they want to.

MR. O'CONNER: And the other drawback of

having the clearinghouse responsible for the reporting requirement is what do you do for the uncleared trades? So then you have to build something different so therefore either the SDR or the middle ware provider has to take over that, so you might end up with two different models in the market, which is probably not efficient.

MR. GOOCH: I think we can all argue the benefits of different models. I think the best thing is to have a set of rules that says it has to be done then let the marketplace argue about which is the most efficient. I think every asset class might come to slightly different conclusions to RJ's point and I don't think there has to be dictated from the center the best topography for it. What has to be dictated is what kind of information, in what form or how quickly and where it needs to go, and then we'll argue about our different models and who can do the best job in the next couple of years, and (inaudible) spent lots of marketing dollars doing it, but I think it's very hard to put one model and say that's the best model for every asset class, everywhere, and every type of user.

MR. CURLEY: Can I just expand on something you had mentioned earlier too, the lifecycle activity as well, and issues associated with that or challenges associated with that that need to be addressed in the context of the connectivity?

MR. AXILROD: Yeah, I think some preliminary work we've done with users both buy and sell side have indicated that unless -- right, let me back up. Most lifecycle events, if they're confirmable, are reportable since confirm information has to be reported. In any event, a lot of them are price-forming events so they'd have to be reported in real time, not all of them. Unless trades, however, are cleared or what we called gold record warehouse, in other words, where there's a central record keeper that has -- whose records trump the internal records of the firm's, I don't know that everybody has reached a point of confidence, even for trades that don't change very much, that if you built a position out of an initial report and reports of all the post trade events, you'd actually get it right just because there are too many things that might intervene, might not be reported.

I know that one of the things -- the industry would like to get to that point, I think, so the idea is that people would just report both. I'll report you at the end of the day, I'll report what I've got, I will also, in the middle of the day, report all the events. The SDRs keep track of both and if there are any discrepancies they're noted and the firms deal with them or you get a reason for them. And in the middle of the day if you're looking at positions inter-day, for regulatory reporting, all you can do is take the -- all you can do is take the events that come in and add the to whichever starting number you want, whether it's the firm reported number or the position built out of previous events.

MR. CUTINHO: I think a clearinghouse, like today, does report to the regulator both the end of day position and we also have events that make up that position. So when there are events like terminations or offsets, like netting, you do see the trades that make up the final end of day positions. So, you see the start of day position and then the intervening trades and the end of day position. So, we do that today for clear trades.

In terms of unclear trades, as Peter pointed out, we can definitely show that information. If we get all the events, if they have confirmations, it's very easy to report on the events.

MR. HABERT: Can I just pick up -- a few have mentioned sort of the asset classes and doing things by asset class and obviously in the first two panels that came up a lot. So, say you develop the connections right now and you get the connectivity going, and we talked about rates and credit, are you going to need to modify all of that or tweak all of that as the new classes either become required to trade -- I'm sorry, required to be cleared or made available to trade on a SEF? Is that going to require, you know, another six months to get that all done or is it going to be able to be done quickly because you can have more general documentation at the stage?

MR. OMAHEN: I would say it's still going to be work. Certainly some will be leveraged so it won't be quite as much work as the first time, but ultimately it's creating more overall work but spacing it out in a more manageable challenge. So, I do think that that -- I mean, from the post clearing vendor perspective, I think that would be helpful, but we have to make sure you understand that it is still a significant effort even after the first one has gone live.

MR. GOOCH: I'd probably take a slight different angle on that one. I think adding clearinghouses or adding SEFs would then lead to an ongoing process. To my mind, the six to nine months gets you at a starting point where we have a number of, you know, DCOs, CMEs, ICE, LCH, a bunch of other that, you know, IDCG, et cetera, you know, have all those guys all connected up.

Have that network, then you add new people as they come along. I wouldn't see another six- to nine-month period for an asset class once it's set up. I think you want to do the work once, create the connectivity, and have that evolve with the asset class (inaudible) rather than having some sort of future period.

I think there's a big difference though between what should be available and what's mandated. I think, you know, picking up from some of the earlier panels, clearly the step where everyone goes out, says I'm a -- whatever they are, DCO, SDR, clearing agency, (inaudible), whatever that happens to be -- and gets themselves registered as what they need to be, and it would be a later phase when you say to people, then, therefore, you have to, you know, put your trades on a DCL or to an SDR, et cetera. I think it's a natural phasing to that. But that's probably not about creating new connections but about reusing that information. I would certainly say that, you know, SDRs to my mind come first because you're basically saying to people, conduct your business in a certain way under Dodd- Frank, get yourself registered, follow those rules, and now do things which you think are useful.

If you want to clear straight away, you should be able to clear because the DCOs are available. If you want to use a SEF, use the SEF. But at some point the government's going to step in and say, even if you didn't want to do that, we're going to make you do it. And the first thing to make people do, in my mind, is they've got trades they don't want to show to the regulators, make them show them to the regulators in the SDR. Then you should probably step in a counterparty risk by making them clear them and then you sort of interfere with how they conduct their business by making them execute in a certain way as a next stage.

But I would separate the two. Have everyone available, have everyone connected, let people use what's commercially sensible, then start to step in and say, I know you didn't choose to do this, but you must show us your trades, you (inaudible) you risk certain trades, and then (inaudible) how they actually conduct their business day-to-day.

MS. BEARD: I would agree with those comments as well. I think it's -- although it's still work, it would still be less work to add additional asset classes and it would also help -- we heard this in some of the previous panels, we don't want a siloed or fragmented workflow process. We'd like, you know, all aspect classes even if they have specific nuances, and additionally keeping that in mind as we move forward, we don't want to retrofit into a process that has already existed. We want to keep in mind that we want to add additional asset classes.

MR. CUMMINGS: Yeah, I see it a little bit differently. I mean, for an SDR, they're going to be taking trades and lifecycle events, you know, after they've already been registered in a clearinghouse. So by definition, the SDR is going to have to speak the language of the DCO, period, on and on, going into the future until these instruments roll off the board for offsets, onsets, netting, deliveries, payments. So those two languages are going to have to coexist per asset class, maybe for multiple asset classes.

The SEFs will probably have to speak that language as well for that asset class. So, if a DCO is -- FPML, for instance the SDR is going to have to be FPML. It won't necessarily be FIXML or XML or some proprietary standard. The SEF is going to have to register trades at the DCO as well as report to the SDR. It's all going to fall into line by asset class.

As an SDR wants to bring on new asset classes that it didn't initially go out with, it's going to have to speak the language of the new asset class, which by definition is the DCO's language of that new asset class if it's not the same.

MR. CUTINHO: From a clearing perspective, I think there are risk management considerations to adding new asset classes to clear, so not just operational. Even within an asset class there are risk management considerations if, you know, you're clearing swaps versus options and swaps. So, those are separate from the operational considerations.

Operationally, I think I would agree with Kathryn. The workflow should not necessarily change. The workflow should remain the same. What would change is the payload and then there are certain nuances of different types of products.

MR. LEVI: I think just in response to R.J., we would hope there would be more than one DCO for each asset class. We've spoken about interoperability and we hope there will be some competition that will provide better service and better value for the customer. To say it's just one DCO and that DCO can dictate which protocol to use, I think, is a -- at this stage is a little bit much. We have to wait and see how that moves forward.

MR. CUMMINGS: I think that's a fair

point. I wasn't intending that there would only be one DCO, I'm just saying that the SDR connecting to a DCO is going to have to speak that DCO's language. Where there's one, two, three, the burden falls to the SDR.

MR. AXILROD: Well, I think we're all losing sight a little bit that all us providers -- this ain't our data. The data belongs to the market participants, and it's the market participants that ultimately have the reporting responsibility by statute. Yes, they can use agents, but using an agent doesn't get them off the hook legally for their reporting responsibility. So, what I think all of us infrastructure providers ought to be doing is viewing ourselves as having two constituents: The market participants and the regulators. And our function really ought to be, as much as possible, making sure that the market participants can themselves assure that the information you see is as accurate as possible. And I think that's really what should dictate the practice because in every asset class there are likely to be multiple clearers and many, many trades that are not cleared and they will be of the same type. You can't say that all trades of a certain type are going to be cleared because there's end user exemption, so forth and so on. And I think that we should all be looking at you two guys -- or you two groups of people as the clients and we're the facilitators, at least from the SDR's point of view. We're trying to take in data in the most efficient way for the users, for the market participants, and show it to you all, that's some connectivity that we also need to have, you know, online portals to the regulators, and show it to you all in the most efficient way possible or in the way you want to see it, and that's sort of my view.

MR. CURLEY: I also wanted to introduce the international topic a little bit and just ask whether any of the things that we've talked about to this point have different features when we add an international component to the connectivity questions.

MR. GOOCH: I think the biggest issue on international is just the extra territoriality issue that always comes up. And if you just take us as an example, we have a U.S. entity and a European entity. We have technology in both centers and we largely divide by asset classes. It's slightly simplistic, so we tend to do credit in the U.S. and rates in London.

Now, that's fine, it works. Works practically speaking, but then, you know, do we in our London business have to register something in the U.S. and does that now mean will the Korean activity for their domestic market that goes to that same platform is now subject to investigation by the CFTC? Are they going to be happy about that? So, I think some clarity around, you know, what does it mean to be registered and what rights does that give people? Can I create a U.S. shell company to own my U.S. business that's regulated that outsources the technology back to London? Or do I have to move my data centers? Some of those things could be quite large. I'm assuming we get a very practical solution because if we don't, the Europeans are going to ask for exactly the opposite on the other side of the fence, you know, all the credit stuff will be moved back to London.

So, I think, you know, the internationality probably will be a non issue because it will all get sorted out, but there is that kind of nuclear winter scenario in the back of everyone's minds that if everyone can't come to some sense of accommodation, we're all going to duplicate technologies and connections all over the world and it's going to be slow and horrendously expensive.

MR. AXILROD: Yeah, there is a particular sort of technological operational issue that goes like this: Right now people -- since the U.S. is first, all of the who has what reporting obligation and so forth is U.S.-centric. When there's a trade between a U.S. person and a non-U.S. Person, the U.S. person has the reporting obligation.

Well, assuming -- you know, it's been a bit controversial whether you should have one repository per asset class. The flipside, I hope, is not controversial, which is the same swap shouldn't be reported to multiple repositories because you'll never then -- even with U.S. Eyes it's going to be very hard to untangle, you know, what's the correct information, double counting, all that stuff. Well, the European legislation is undoubtedly going to be a mirror image of the U.S. legislation, so you're going to have plenty of swaps where the party with the reporting obligation, if they're transatlantic swaps, different parties are going to have the reporting obligation depending upon the law that applies. So, you're going to need to have a solution, a reporting solution, that works in that environment. To build one now that doesn't work in that sort of environment, is just asking for trouble about a year down the road.

That's very easy with trades executed on electronic platforms are cleared because the electronic platform or the clearer has the right version of the trade. Where they are -- any part of this process is bilateral and, you know, one of the counterparties is supposed to report, you're going to end up in a situation where both counterparties have a reporting obligation under some law and the process that you implement has to be able to deal with that and make sure that you're not double counting and that the regulators know exactly what it is they're looking at.

MR. O'CONNER: Yeah, and I would add one flavor of problem you get when looking to the international stages is the political angle and it's certainly the market participants' view that there should be one global SDR per product, if that's achievable. And a way to deal with local regulatory preference for domestic SDRs is to make the global SDR information available to them on an unencumbered basis as required subject to proper agreement, because as soon as you get to multiple SDRs per product, then you lose one of the primary goals of the whole approach which is to give you guys insight into the whole market. And with multiple SDRs per asset class, you need to have an SDR of SDRs, some form of aggregator that sits on top of those which is getting very costly and inefficient as well.

CHAIRMAN GENSLER: Can I just ask a question? Because I know, Steve, you've raised this in meetings upstairs, but I'm not sure the statute agrees with you, even if we agreed with you, because we heard earlier today that some of the clearinghouses, I guess CME is going to apply to be SDR, and I presume they might apply in the same space that somebody else at this end of the table is sitting. So, we might have clearinghouses as well. What do you suggest that we in the SEC do in that circumstance where -- they're competitors that want to both be SDRs?

MR. O'CONNER: Yeah, so, I understand the competition argument and everybody should be welcome to try to win mandates in that space. The way that ISDA organized itself is for each product to set up committees that undertake a formal RFP review of all, you know, anybody who wants to propose, basically, and we think that's the way forward to choose one per market. And competition should be allowed, but the point I'm making is that that will lead us down a road to, you know, the fragmented SDR where you need then to create some kind of -- you know, then you're having another RFP, this is going to be the aggregator of what's in all the local SDRs or the clearinghouse A plus B plus DTCC aggregation questions.

So, it's -- I understand the question and I think there's no elegant solution, but it's a tricky one.

MR. AXILROD: Yeah, I might say, though, that the market may work itself out, right. Just because someone registers as an SDR, just like you might register as a DCO, doesn't mean that people are actually going to use you as an SDR, and while DCOs can register as SDRs, I'm assuming -- maybe I'm wrong -- that essentially vertical tying or bundling isn't going to be allowed, you're not going to be able to say, if you use my DCO you have to use my SDR. At least DTCC was told that. When we registered I realized -- when we became regulated I realized that wasn't under Dodd-Frank. But if that isn't allowed, then presumably it's going to be up to the market participants to use whatever SDR they want to use and the other parts of the market infrastructure should be able to direct those trades as the market participants want because ultimately it's the market participants that are going to have to have a reconciliation and control process to the SDR to make sure your data is accurate.

So, it may be, even if there are multiple SDRs registered, that the market will sort itself out fairly quickly. If that doesn't happen, then you'll end up in this dilemma.

MR. CUTINHO: There are multiple clearinghouses today, and they are reporting net risk to the CFTC. So, I don't understand why multiple SDRs would be an issue. So, as long as we all follow the same API and reporting format, we believe that the market should be open.

MR. AXILROD: I will point out, because it is for sure a fact, that if you have multiple SDRs, the public reporting of open interest will in fact be overstated and misleading. Now, somebody can pull all that together and work out the net so it's not, but we shouldn't have a public reporting system where you know for sure that the open interest reporting is simply wrong and misleading, and that's what's going to happen if you have multiple SDRs that report open interest and so forth to the public.

MR. LAWTON: Would there be a way that both sides would have to report to a single SDR? You could have multiple SDRs but not have the different sides of a trade report?

MR. AXILROD: You would have to have each -- in order to avoid that result you would have to have each firm only report to one SDR, which I think is impossible under the statute because -- no, the statute doesn't address SDR reporting, just clearing. So, it's not clear who chooses.

MR. SHILTS: I wanted to go back to -- I guess for a little clarity on something that was mentioned a little bit earlier and there was the discussion of the six- to nine-month timeframe, but then there was also the discussion about all the various entities who have to make arrangements with all the other entities as far as getting connectivity arrangements in place. So I guess what I was wondering is this kind of an estimate really realistic or should it be more framed in the context of specific types of -- for certain asset classes? And any further elaboration on that would be helpful.

MR. GOOCH: Perhaps I should clarify because I think I was the first one to --

MR. SHILTS: And six to nine months from when?

MR. GOOCH: Okay. Let's start with the easy part. I think six to nine months from when the rules are clear. I think at that point you can do it. The six to nine months in my mind were around making the network itself compliant with the rules. I don't think there's a lot of work to be done but there would be some -- you know, you could create fast changes to the rules that made that a sure estimate, but I mean imagining they'll be as the current drafts or they'll be slightly easier to implement. So I think you can take that core network and modify it in that kind of time period. I think what you can't do is make everyone in the industry ready to send the data in the appropriate timeframe to that.

And secondly, I think the point that Ron and others have made around testing, if you come through a sort of middleware provider, everyone tests the middleware once and then we connect out to all their parties and that's very efficient testing hierarchy. If you go for one-to-one connections, then you have, in theory, you know, tens of thousands all of which have to be individually tested. You know, that's certainly not a six- to nine-month project.

But to be clear I think I was saying, yeah, from our perspective you could modify the network in the center, have the DCOs, the SDRs, the SEFs connected to that, which they already largely are, in that time period and then certainly if the major dealers were already connected, you know, compliant for the bulk of their business and then kind of work through.

I think the big thing around -- generally true about Dodd-Frank (inaudible) in this case it's probably 80 to 90 percent of the work comes from the weird edge cases and things that people don't talk about, you know, taking core transactions, making them available to SDRs, available to the public, entering to clearing, that's actually a relatively easy thing to do because we've all spent four or five years working out how to get it done. It wasn't easy five years ago, but we've all worked through that and delivered it.

Some of the new things that are being added, you know, some of the bespoke trades, the electronified, some of the collateral information that's being asked for, that would be much tougher to do and could take a lot longer, but if you kind of focus on the things we always talk about at these meetings, which as far as I can see is, you know, 95, 99 percent of transactions available to regulators, available for clearing, you know, the ability to take them off a trading platform, that is not such a big lift because we've all spent a long time and a lot of money making that possible. It wasn't cheap and it wasn't easy, but it has now been done. It needs a little bit of tweaking, maybe it does, maybe it doesn't once we see the final rules.

And I think some guys around this table are already heavily connected to that and can use it. Some corporates are definitely not going to be ready in six to nine months, but, you know, some phasing around that, I think, would definitely be appropriate.

MR. COOPER: I'd just like to emphasize that last point. I think that's the point to focus on, is that the products that we launch for clearing right away are going to be the ones that everyone's most familiar with, that are most liquid, that are right there in the market and for which the connectivity problems or issues we're talking about are going to be relatively straightforward as compared to the edge cases.

MR. O'CONNER: And to be clear, the six to nine months is to do with the messaging only, right?

MR. GOOCH: Yes.

MR. O'CONNER: In other words, to get to -- there are many other things beyond messaging that are important, right, to have clearing up and running, you need risk margin segregation, documentation, membership criteria, et cetera. So, his six to nine, I think is just the messaging network.

MR. GOOCH: Yeah, I'm not including the million documents we talked about in the previous panel. So, I do think that the network and connectivity is the gating factor. The other things are much more complex to achieve.

MR. LEVI: I pretty much concur with

Jeff. The six to nine months allows us to redevelop or reengineer our systems to make sure the APIs are up to scratch and to release them. The connectivity, as we've mentioned, depends on other people and we can't be held responsible for what -- for the resources the other people give us.

MS. BEARD: And I think, Jeff, that the six to nine months -- and we'll use market as an example, is for you to get your platform compliant, but then it's to communicate to the buy side who then has to develop after that or possibly concurrently but to your protocol once you're completed. So, it could be an additional several months after the six to nine months for market participants.

MR. GOOCH: Yeah, I think that's fair. I think we could be ready in that time period. You know, some firms will be ready at the same point, some firms will require a little bit of extra time. Some firms, you know, who do end of day compliance checking, for example, have a fundamental business change to make. I don't know how long that will take them. That's not something they're turning around that quickly. Other guys like corporates, you know, there's a whole education exercise (inaudible) and spreadsheet uploads, but if they have a 15- or 30-minute requirement that's going to be quite tough on them. So, I think there's definitely some phasing beyond that, you know, very much talking about that core network, getting kind of, you know, the major dealers on board, I think, and then working out, you know, educators later and other participants.

MR. AXILROD: Yeah, I just want -- a note of caution on the, you know, 95 percent of the stuff is good and we should start clearing it and all that. That's all well and good because that's how clearing is supposed to work. You bring stuff in and eventually bring more in. In terms of reporting, I think it's kind of dangerous to do it that way just because, remember, all the AIG trades, if we did it that way, wouldn't have been reported and in fact they weren't reported to the Trade Information Warehouse because they were bespoke and not electronically confirmed. It's -- I think it's very important, especially since a lot of times it's the bespoke trades that are the larger risk creating trades and not the standardized ones, to start out with at least some reporting of bespoke trades. Report what you can, underline, direction, counterparty, notional, it may mean nothing, but if it's -- because of all the bespoke clauses, but at least if you see a lot of large one-way positions building up, if that's connected to the actual image of the paper confirm, you can go in and read it and see for yourself, but if you put that aside and say we're just going to start with the easy stuff, you're going to miss AIG were it to happen again.

MR. SHILTS: Okay, I think we're about at 4:00, near the end. Does anyone have a final comment?

MR. O'CONNER: I have one comment and this applies to all three panels, I think, today.

I think to the extent that the commissions could try to publish a timeline that would be very helpful to the industry both in terms of rule finalization and effective dates for implementation. I spend a lot of time working with clients and the number one question on people's minds is when is all this going to apply to me. So, to the extent we can provide some clarity to the market, I think that would be greatly appreciated, and it can be in the form of a draft timeline that's put up, you know, comments are invited, but I think that will be very useful to the market.

MR. COOPER: I guess I would just conclude, you know, by echoing, yes, timeline is very helpful. As I said before, nothing focuses the mind like a deadline, but I don't think we can end the day saying, geeze, there's a lot of hard work, it's going to take a long time. I think what we have to recognize is the tremendous work that the SEC and the CFTC have done in promulgating a lot of very, very complicated and challenging rules. The market has a lot of information. There is almost uniform alignment of interest among most market participants to achieve rapid and effective clearing as soon as possible. So, I'd like to end the day on sort of an optimistic note that the time to move forward is now so we can begin that hard work and get it done quickly.

CHAIRMAN GENSLER: Oh, I was just going to thank everybody, and I'm sure Chairman Shapiro, if she was still here, would thank everybody if I can speak for her too. But it's been a terrific, very informative day and we've got another one of these days tomorrow, but thank you all for being so gracious with your time and advice.

MR. SHILTS: Once again, thank you and we have registration tomorrow and we begin the four panels at 9:30 tomorrow, so thanks again.

(Whereupon, at 4:12 p.m., the PROCEEDINGS were adjourned.)

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I, Irene Gray, notary public in and for the District of Columbia, do hereby certify that the forgoing PROCEEDING was duly recorded and thereafter reduced to print under my direction; that the witnesses were sworn to tell the truth under penalty of perjury; that said transcript is a true record of the testimony given by witnesses; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this proceeding was called; and, furthermore, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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