CITADEL

November 29, 2013

Via Electronic Submission: http://comments.cftc.gov

Ms. Melissa Jurgens
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street NW
Washington, DC 20581

Re: Industry Filings: IF 13-004[1], IF 13-005[2], and IF 13-007[3]

Certifications to Implement Made Available-to-Trade Determinations for Certain Interest Rates Swaps from each of Javelin SEF, trueEX, and TW SEF

Dear Ms. Jurgens:

        Citadel LLC[4] ("Citadel") appreciates the opportunity to provide comments to the Commodity Futures Trading Commission (the "Commission") on the certifications from each of Javelin SEF, trueEX, and TW SEF to implement Made Available-to-Trade ("MAT") determinations for certain Interest Rate Swaps.

        We are firm supporters of reforms to the OTC derivatives markets that have already begun and will continue to reduce interconnectedness and systemic risk, improve pre- and post-trade transparency, and foster an open, level, competitive playing field. The recent successful market transition to mandatory central clearing coupled with the impending market transition to mandatory trading on swap execution facilities ("SEFs") and designated contract markets ("DCMs") are the cornerstones of this reform effort. To ensure that the implementation of SEF/DCM trading is as successful as the implementation of central clearing, we believe that the Commission should adopt a phased approach to the approval and/or effective dates of the MAT determinations. In that vein, we endorse the phase-in approach recommended by the Managed

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[1] http://www.cftc.gov/stellent/groups/public/@otherif/documents/ifdocs/javelinsefsubmat1306r.pdf.

[2] http://www.cftc.gov/stellent/groups/public/@otherif/documents/ifdocs/trueexsub201314mat.pdf.

[3] http://www.cftc.gov/stellent/groups/public/@otherif/documents/ifdocs/corpg5twmatdeter101813.pdf.

[4] Established in 1990, Citadel is a leading global financial institution that provides asset management and capital markets services. With over 1,100 employees globally, Citadel serves a diversified client base through its offices in the world's major financial centers including Chicago, New York, London, Hong Kong, San Francisco and Boston.

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Funds Association ("MFA") in their comment letter dated November 21, 2013.[5]

We would like to take the opportunity in this letter to offer our own additional market, data and analytical insights that we believe further justify such a phase-in approach. Specifically, we provide a(n):

- Summary of recent transaction data, broken down by tenor, to illustrate how a phase-in approach that begins with the benchmark tenors will not only initially capture the majority of market activity, but will progressively address the whole market

- Comparative analysis of transaction costs between executing certain common package transactions (i) as a single transaction vs. (ii) on a component leg-by-leg basis, to demonstrate the importance of preserving market participants' ability to execute such trades as single packages

- Assessment of the current state of market infrastructure with respect to the execution-to-clearing workflow for package transactions, to highlight the remaining hurdles to overcome before package transactions can be traded efficiently on SEFs/DCMs, and how a phase-in approach can accommodate the resolution of these challenges

I. Summary of Transaction Data by Tenor

Section II of the MFA letter proposes a phase-in approach to the MAT determinations for outright, spot-starting swaps that begins with the benchmark tenors before progressively expanding to cover non-benchmark whole tenors and then finally partial tenors. Our analysis of publicly available transaction data shows that, for both USD and EUR swaps, such a phase-in approach would capture 80% or more of the market on Day 1, 95% or more by T+90, and the remainder by T+270. We believe this represents a sensible ramp-up that focuses initially on the most liquid, standardized products before moving on to less liquid, more bespoke products.

We analyzed data from DTCC's Real-Time Dissemination Dashboard for the one-month period from October 18 to November 18, 2013.[6] We limited our analysis to new, cleared, spot-starting swaps in the fixed-to-floating swap class. We examined both USD and EUR swaps, and included trading activity both on-SEF/DCM and off-SEF/DCM. The following summary tables show, for illustrative purposes, how the proposed phase-in approach for outright, spot-starting

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[5] Available at http://comments.cftc.gov/PublicComments/ViewComment.aspx?id=59381. For ease of reference, we use the same terminology below as is used in the MFA letter.

[6] Available at https://rtdata.dtcc.com/gtr/dashboard.do.

swap transactions would progressively capture the whole relevant market, in both notional and trade count terms.

Percentage of Spot-Starting USD Fixed-To-Floating Swap Market Covered by Phase[7]

	Day 1	Phase 1 (T+90)	Phase 3 (T+270)
	(Benchmark tenors)	*(Non-benchmark whole tenors)*	*(Partial tenors)*
Notional	83.0%	11.7%	5.3%
Trade Count	86.3%	9.7%	4.0%

Percentage of Spot-Starting EUR Fixed-To-Floating Swap Market Covered by Phase[8]

	Day 1	Phase 1 (T+90)	Phase 3 (T+270)
	(Benchmark tenors)	*(Non-benchmark whole tenors)*	*(Partial tenors)*
Notional	79.8%	15.7%	4.6%
Trade Count	79.5%	17.1%	3.3%

II. Analysis of Transaction Costs for Package Transactions

Section IV of the MFA letter provides a detailed overview of package transactions, and, among others, notes that package transactions improve pricing and decrease transactions costs. We analyzed the pricing and transaction costs for two relatively common package transactions, and concluded that, if market participants are no longer able to execute package transactions, relevant transactions costs will potentially triple. Therefore, preserving market participants' ability to execute such trades as single packages is important, and, to the extent that SEFs/DCMs are not prepared to supporting such trading, a phase-in approach is warranted.

We provide two examples below of relatively common package transactions to illustrate the transaction cost differential between (i) executing a package transaction and (ii) establishing an identical risk position by executing the legs individually (i.e. on a leg-by-leg basis). These examples only look at the transaction cost differential based on bid-ask spread. As such, they understate other higher costs associated with breaking up the package execution, such as legging

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[7] MFA's proposed phase-in does not include any additional tenors of spot-starting, USD fixed-to-floating swaps in Phase 2.

[8] MFA's proposed phase-in does not include any additional tenors of spot-starting, EUR fixed-to-floating swaps in Phase 2.

risk. In both examples, we have used actual quotes we witnessed in the market mid-morning on November 20, 2013.

Swap Spread Example

Our first example involves the simultaneous and contingent execution of a US Treasury bond and a fixed-to-floating swap. These transactions are referred to as "swap spread" transactions. A common swap spread transaction would be to (i) Buy a $100 million 10-year US Treasury bond and (ii) Pay fixed on a $100 million notional USD fixed-to-floating 10-year swap. The quotes we observed in the market for the individual instruments as well as the package transaction were:

Product	Bid	Ask	Implied Mid
10Y Treasury	2.7045 %	2.7085 %	2.7065 %
10Y Swap	2.742 %	2.746 %	2.744 %
10Y Swap Spread	3.625 bps	3.875 bps	3.75bps

Executing the trade as two separate legs would involve (i) buying the 10Y Treasury at a yield of 2.7045% and (ii) paying 2.746% on the 10Y Swap. This results in an effective price of 4.15 basis points, or "bps" (2.746% - 2.7045% = 0.0415%, or 4.15 bps). To calculate transaction cost, we compare this effective price to the implied mid of the equivalent 10Y swap spread, which is 3.75 bps. The differential between 4.15 bps and 3.75 bps is 0.4 bps. To translate this into US dollar terms, we multiply 0.4 bps by the ~$90,000 DV01[9] per $100 million notional on a 10Y swap spread, resulting in a transaction cost of ~$36,000.

Executing the trade as a swap spread package would involve paying 3.875 bps. Compared again to the mid, this results in an effective price 0.125 bps (3.875 bps – 3.75 bps = 0.125 bps). Likewise, to translate this into US dollars, we multiply 0.125 bps by the ~$90,000 DV01 per $100 million notional on a 10Y swap spread, resulting in a transaction cost of ~$11,250.

Thus, executing the trade as two separate legs costs $36,000 while executing the swap spread package costs $11,250. The non-package execution increases transaction costs by a factor of three.

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[9] DV01 = dollar value of a one basis point move in the underlying rate or yield.

Swap Curve Example

Our second example involves the simultaneous and contingent execution of two fixed-to-floating swaps. These transactions are referred to as "swap curve" transactions. A common swap curve transaction would be to (i) Receive fixed on a $100 million notional 5-year fixed-to-floating swap vs. (ii) Pay fixed on a $50 million notional 10-year fixed-to-floating swap. The quotes we observed in the market for the individual instruments as well as the package transaction were:

Product	Bid	Ask	Implied Mid
5Y Swap	1.426 %	1.430 %	1.428 %
10Y Swap	2.742 %	2.746 %	2.744 %
5/10 Swap Curve	131.4 bps	131.7 bps	131.55 bps

Executing the trade as two separate legs would involve (i) receiving 1.426% on the 5Y Swap and (ii) paying 2.746% on the 10Y Swap. This results in an effective price of 132 bps (2.746% – 1.426% = 1.32%, or 132 bps). To calculate transaction cost, we compare this effective price to the implied mid of the equivalent swap curve, which is 131.55 bps. The differential between 132 bps and 131.55 bps is 0.45 bps. To translate this into US dollar terms, we multiply 0.45 bps by the ~$50,000 DV01 per $100 million notional on a 5Y swap curve, resulting in a transaction cost of ~$22,500.

Executing the trade as a swap curve package would involve paying 131.7 bps. Compared again to the mid, this results in an effective price 0.15 bps (131.7 bps – 131.55 bps = 0.15 bps). Likewise, to translate this into US dollars, we multiply 0.15 bps by the ~$50,000 DV01 per $100 million notional on a 5Y swap curve, resulting in a transaction cost of ~$7,500.

Thus, executing the trade as two separate legs costs $22,500 while executing the swap curve package costs $7,500. The non-package execution increases transaction costs by a factor of three.

Conclusions

We have provided two specific examples, but believe that the transaction cost differential highlighted above applies equally across the full universe of package transactions, including:

- Swap Curve: Package of two swaps of differing tenors
- Swap Butterfly: Package of three swaps of differing tenors
- Swap Spreads: Government bonds vs. swaps typically within similar tenors
- MBS Basis: TBAs (Agency MBS) vs. swap spreads

- Invoice Spreads: Treasury-note or Treasury-bond futures vs. swaps
- Cash/Futures Basis: Eurodollar futures bundles vs. swaps
- Delta-Neutral Option Packages: Caps, floors, or swaptions vs. swaps

We conclude from these examples that, if market participants are no longer able to execute package transactions, relevant transaction costs will potentially triple, as market participants are forced to cross multiple, wider bid-ask spreads in order to establish risk positions identical to the ones they could obtain via package transactions. Further, no amount of bid-ask spread compression at the component instrument level could offset these lost economics.

Thus, as a threshold matter, we urge the Commission to avoid breaking up the simultaneous and contingent execution of package transactions into individual executions of the component legs within a package. This raises the question of how to treat package transactions. Should they just be exempted from trading on SEFs/DCMs (even if one leg is a MAT instrument) or should SEFs/DCMs be encouraged to list package transactions, so their simultaneous and contingent execution can be preserved?

A permanent exemption for all package transactions is neither desirable nor consistent with the policy objectives of the OTC derivatives reform process. However, there are a number of market infrastructure hurdles to overcome before SEFs/DCMs can list and efficiently trade package transactions. We explore these challenges and their solutions in further detail in Section III, and believe a phase-in approach can be appropriately designed to accommodate the implementation of such solutions without unduly delaying the market's transition to trading on SEFs/DCMs.

III. Assessment of Market Infrastructure for Package Transactions

As the MFA letter outlines in Sections III and IV, the market infrastructure necessary to process package transactions as a whole through the execution-to-clearing workflow is not presently available, though market participants are actively working to implement solutions. A phase-in approach would therefore allow for a more seamless transition to trading package transactions on SEFs/DCMs. We have a number of our own market insights, outlined below, that we believe further bolster the case for adopting a phase-in approach for package transactions. Specifically, we examine the challenges and potential solutions related to:

- Credit-checking of multi-swap package transactions;
- Settlement of the US Treasury leg of a swap spread;
- Implementing an "Exchange for Related Positions" model for swaps; and
- Preserving the invoice spread market

Credit-Checking of Multi-Swap Package Transactions

For multi-swap package transactions to trade efficiently on SEFs/DCMs, relevant market participants and intermediaries, including SEFs/DCMs, FCMs[10] and DCOs need to be able to (i) communicate if and when a swap is part of a package transaction and (ii) assess the net risk of the package transaction against relevant client and FCM credit limits (as opposed to credit checking each leg individually). The latter is important in order to prevent inadvertent credit limit breaches, based solely on the random order in which the individual legs of a package transaction are credit checked (by an FCM or a DCO).

To understand the current state of market preparedness, we have had detailed discussions on this topic with a number of leading SEFs/DCMs, FCMs, and DCOs. We understand that the solution is relatively simple at a conceptual level. The industry needs a standard convention to identify when a given swap is part of a package transaction, and if so, how many total legs there are to the package and what order within the total that swap represents (i.e. 1 of n). Therefore, if an FCM or DCO receives a given swap instrument for clearing acceptance, it (i) can identify if it is part of a package transaction (as opposed to an outright swap), and if so, (ii) will know how many linked or related swap instruments are inbound and should be factored into the processing of the risk analysis and credit check. For example, in a swap butterfly transaction with three legs, if a DCO were to receive one leg that was identified as "leg 1 of 3" of a package transaction, the DCO would know to wait until it received the second and third legs of the transaction before running its credit and other risk management checks, and then accepting or rejecting the swaps for clearing.[11]

We have been advised by SEFs/DCMs, FCMs, and DCOs that the timeframe for developing and implementing the requisite language and protocols for package transactions is 2Q2014 or 3Q2014. Therefore, we believe the phase-in approach recommended by MFA for such package transactions is appropriate. Specifically, MFA recommended that benchmark curves and butterflies be included in Phase 1 at T+90, which is sensible since such transactions only have 2-3 legs, and will therefore be easier to manage once solutions are in place. Meanwhile, MFA recommended that unwind / offset packages be included in Phase 3 at T+270, which is similarly warranted, given that they involve partial tenor swaps and can have 50-100 legs. Further, testing the workflow first with curves and butterflies before moving to more complex offset / unwind packages is prudent.

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[10] As well as their credit hub service providers, where applicable.

[11] We do not believe this will impede DCOs' ability to comply with the applicable timeframes under Regulation 1.74, since the 10 second timeframe for DCOs to accept or reject a package transaction for clearing should not begin until all the relevant legs of a package transaction are received.

Settlement of the US Treasury leg of a Swap Spread

When market participants trade a swap spread, they need certainty not only that the swap leg will clear, but also that the US Treasury leg will settle. It remains unclear at present how SEFs/DCMs will guarantee settlement of the US Treasury leg of a swap spread transaction. In addition, solutions that are viable in the existing dealer-to-dealer market may not be readily transferable to an all-to-all SEF/DCM environment, or even a dealer-to-customer SEF/DCM environment.

We are aware of a number of different models / solutions that different SEFs/DCMs have advanced to facilitate settlement of the US Treasury leg of swap spread transactions, though we do not believe that any are fully developed or universally accepted. Specifically, the models we are aware of are: (i) limiting swap spread trading to a disclosed basis only, where counterparties rely on pre-existing off-SEF/DCM relationships to govern the settlement of the US Treasury leg; (ii) requiring market participants to concurrently be members of electronic trading platforms for US Treasuries such as eSpeed and BrokerTec, where the US Treasury leg of the Swap is ultimately executed; (iii) establishing direct connectivity from the SEF/DCM to DTCC's Fixed Income Clearing Corporation for US Treasuries; and (iv) having the SEF/DCM, or its affiliate, also registered as a broker/dealer that intermediates the US Treasury leg of the transaction.

While some or all of these models might ultimately be viable, at a minimum, we believe they each present a number of legal, operational and technological questions that must be answered before swap spreads are effectively required to trade on SEFs/DCMs. A phase-in approach would allow market participants time to resolve these issues. We believe this analysis and approach applies equally to MBS basis package transactions, which involve the execution of TBAs (Agency MBS) vs. swap spreads.

EFRP model

The futures market has long solved its parallel problem with package transactions with rules that govern "exchange for related position" transactions ("EFRPs"). When a market participant trades futures contracts together with a fixed income instrument with risk characteristics and maturities that offset the futures contracts, the futures contracts can be executed off-exchange pursuant to, and then submitted to for clearing in accordance with, exchange / clearinghouse rules.

A similar solution for SEFs/DCMs could solve many issues related to package transactions. The proposed phase-in approach would allow time to develop and implement this solution without impeding the market's overall transition to trading on SEFs/DCMs. An EFRP process would be particularly well suited for package transactions involving OTC derivatives that are not even currently available for clearing, such as delta-neutral option package transactions, which involve the execution of a cleared swap vs. a swaption, cap or floor.

Invoice Spreads

Invoice spreads, which involve the execution of Treasury-note or Treasury-bond futures contracts vs. swaps, are an example of package transactions that rely on current EFRP rules. As the CME detailed in its comment letter on the trueEX MAT determination,[12] invoice spreads are an important type of package transaction and are integral to the overall fixed income markets. However, the continued viability of invoice spreads is threatened unless a solution is developed that continues to allow for the simultaneous and contingent execution of the futures contracts and swap legs of these package transactions.

The importance of resolving the challenges facing the invoice spread market is further highlighted by the fact that the CME has felt compelled to include in its update of its EFRP rules the statement that "A swap that is traded on or subject to the rules of a designated contract market ("DCM") or a swap execution facility ("SEF") is ineligible to be the related position component of an EFR or EOO transaction executed pursuant to Rule 538."[13]

We believe this analysis and approach applies equally to cash / futures basis transactions, which involve the execution of Eurodollar futures bundles vs. swaps.

IV. Conclusion

Mandatory trading on SEFs/DCMs is poised to deliver material improvements to pre- and post-trade transparency and to lead to a more open, level, competitive playing field. However, we fear that a "big bang" approach to the approval / effectiveness of the MAT determinations will jeopardize a successful transition to trading on SEFs/DCMs. We have identified a number of remaining practical challenges to the trading of package transactions in the SEF/DCM landscape, which we believe can be solved, provided the requisite resources are devoted and adequate time is provided. We are committed to working with other market participants to develop and implement the needed solutions. We therefore urge the Commission to consider a phase-in approach of the MAT determinations, particularly with respect to package transactions, to facilitate a successful transition to mandatory trading on SEFs/DCMs.

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[12] Available at http://comments.cftc.gov/PublicComments/ViewComment.aspx?id=59378.

[13] See page 7 of the Market Regulation Advisory Notice attached to CME's Amendment to Rule 538 filing available at http://www.cftc.gov/stellent/groups/public/@rulesandproducts/documents/ifdocs/rul110113cmecbotnymexcomandkc2.pdf.

CITADEL

We appreciate the opportunity to provide comments on the MAT determinations. Please feel free to call the undersigned at (312) 395-3100 with any questions regarding these comments.

Respectfully,

/s/ Adam C. Cooper
Senior Managing Director and Chief Legal Officer