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Markets



May 22, 2020

*Submitted Electronically*

Mr. Christopher Kirkpatrick  
Secretary  
U.S. Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st St., N.W.  
Washington, DC 20581

**Re: Real-Time Public Reporting Requirements (RIN 3038-AE60)**

Dear Mr. Kirkpatrick:

The International Swaps and Derivatives Association, Inc. (“**ISDA**”)<sup>1</sup> and the Securities Industry and Financial Markets Association (“**SIFMA**”)<sup>2</sup> (collectively, the “**Associations**”) appreciate the opportunity to submit these comments on the proposed revisions to the real-time public reporting requirements published in the Federal Register by the U.S. Commodity Futures Trading Commission (“**CFTC**” or “**Commission**”) on April 17, 2020 (“**Proposal**”).<sup>3</sup> We strongly support the Commission’s efforts to recalibrate its reporting framework with a view towards streamlining and improving the CFTC’s reporting regime.

As a preliminary matter, we emphasize that our primary motivation in submitting a separate comment letter on the proposed block thresholds is to address our serious concerns related to the

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<sup>1</sup> Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has more than 900 member institutions from 73 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association’s website: [www.isda.org](http://www.isda.org). Follow us on Twitter @ISDA.

<sup>2</sup> SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry’s nearly 1 million employees, we advocate on legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

<sup>3</sup> 85 Fed. Reg. 9407 (Feb 19, 2020) (hereinafter, Proposal).

proposed block size methodology that we believe, if not remedied in the final rule, will have a significant adverse effect on the overall liquidity of the U.S. swaps market.

For the past seven years, since the initial publication of the block thresholds, we have consistently argued that incorrectly set block sizes will have an irreversible impact on the ability of virtually every market participant, including end-users, such as insurance companies, pension funds and mutual funds, to efficiently execute a large-sized swap transaction, unnecessarily impeding their ability to hedge risk through swaps—the essential function of a derivatives market. Congress understood the importance of setting appropriate block thresholds. The Dodd-Frank Act explicitly directed the Commission to balance the goal of providing price discovery against protecting market liquidity when determining block sizes.<sup>4</sup> Unfortunately, the proposed block thresholds do not comply with this Congressional mandate.

We are troubled by the proposed major increase in block sizes, particularly for those instruments that are also subject to the Swap Execution Facility (“SEF”) trading mandate, which would result in increases that are many multiples (2-5x) of what exists today. This drastic change requires careful deliberation as these increases will adversely affect market liquidity, significantly raise trading costs for buy-side market participants and end-users, and increase burdens on client-trading workflows.<sup>5</sup> An impact to the liquidity and functioning of these foundational instruments (*i.e.*, interest rate and credit swaps) could have serious repercussions on related markets and instruments.

Importantly, market participants have operated under the current thresholds since they were first put in place in 2013. Since that time, to our knowledge, there have been no decreases in price discovery associated with block trading that would warrant such a significant regulatory shift. In fact, the opposite seems to be true: in 2018, 89.7% of interest rate swaps (“IRS”) were reported in real-time; this number increased to 90.6% in 2019,<sup>6</sup> evidencing that U.S. swaps markets today already have a sufficient degree of transparency in line with the Commission’s price discovery objectives that were initially outlined in the first block trade proposal.<sup>7</sup>

It is therefore not clear to us why the Commission’s proposed changes significantly shift block and cap thresholds in the name of market transparency, and at the risk of diminishing market liquidity, especially at a time when markets are already experiencing reduced liquidity during the COVID-19 pandemic. Separately, it is noteworthy that virtually all market participants that transact in these markets are highly sophisticated institutional investors. The Commission’s goal of promoting price transparency should take into account the fact that these sophisticated market participants have the best perspective on how to optimize their trading strategies for best price

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<sup>4</sup> Section 2(a)(13)(E) of the Commodity Exchange Act requires that the Commission’s rules for the public availability of swap transactions and pricing data contain provisions that take into account whether public disclosure will materially reduce market liquidity.

<sup>5</sup> These impacts are likely to be exacerbated by market conditions that have deteriorated as a result of the COVID-19 pandemic.

<sup>6</sup> ISDA analysis based on DTCC SDR data.

<sup>7</sup> See 51 Fed. Reg. 15460, 15481 n. 198 (March 15, 2012).

execution; and they do so in a dynamic fashion according the order size, liquidity profile of the instrument, and market conditions.

The crux of the problem with the proposed thresholds stems from the arbitrary and “one-size-fits-all” approach to determining block sizes and the over-inclusive scope of data used to determine such thresholds. Notably, the absence of market-wide data makes it more difficult to provide well analyzed and data driven recommendations. We address these issues in more detail below. In addition, we provide procedural recommendations that would give the Commission more flexibility to periodically adjust block and cap thresholds based on observed changes in market conditions.

### **1. The 67% Calculation Will Result in Unworkable Block and Cap Sizes**

We are greatly concerned with the Commission’s proposal to codify “the 67% Calculation” and apply it uniformly across a number of asset classes and swap categories.<sup>8</sup> As we have stated in the past, the 67% Calculation is arbitrary; it focuses on sorting swaps in a particular market by their notional amount and determining (without providing any economic analysis) that a certain percentage of the largest notional trades should be blocks.<sup>9</sup>

By way of background, when the CFTC first introduced the 67% Calculation in 2012, the Commission stated that the proposed 67% Calculation was intended to ensure that two-thirds of the sum total of all notional amounts in each swap category were reported on a real-time basis. The rationale for choosing the 67% Calculation was not clear then and is still not clear under this proposal. Further, in 2012, the Commission also stated that such methodology (using the available data at the time) would result in 94% of trades being reported in real-time.<sup>10</sup> In this Proposal, the Commission doubles down on achieving its goal of price transparency without, yet again, providing any supporting analysis. The proposed block thresholds go substantially beyond the Commission’s historical objective, resulting in approximately 95%-98% of interest rates swaps being reported in real-time.<sup>11</sup> As we have stated in the past, the number of true block trades in a given swap category should depend on the relevant level of liquidity and risk

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<sup>8</sup> Separately, with respect to the portion of the methodology that allows for currency conversion, the Commission states that market participants may use a currency exchange rate that is “widely published.” We respectfully ask the Commission to clarify what rates it would view as “widely published” and whether such rates would include those published by the Federal Reserve.

<sup>9</sup> The comments in our letter related to the 67% Calculation equally apply to the 75% Calculation for determining cap sizes. The 75% Calculation for determining cap sizes takes the same arbitrary approach to determining what amounts should be capped for public dissemination purposes. As we have stated in the past, we do not believe that the added market transparency from reporting transaction sizes between the 67% notional threshold for block sizes and the proposed 75% notional threshold for cap sizes will outweigh the harm to liquidity from this additional disclosure. If anything, the proposed high cap thresholds will result in exposing the full size of large-sized transactions that fall below the proposed block thresholds, thereby limiting firms’ ability to appropriately hedge such transactions.

<sup>10</sup> 51 Fed. Reg. 15460, 15481 n. 198 (March 15, 2012).

<sup>11</sup> See Letter Appendix, which provides data related to trade count for rates instruments.

sensitivity for such category and should be recalibrated on a periodic basis given observed changes in liquidity and bid-ask spreads.

Although the Commission has recognized that different categories of swaps have various levels of liquidity,<sup>12</sup> the proposed thresholds do not appear to reflect this understanding. The lack of such a nuanced approach has resulted in proposed block thresholds that are simply too high. For example, the proposed \$150mm threshold for 30-year MAT swaps is multiples larger than the average trade size in the interbank market (*i.e.*, the proposed block notional thresholds that have longer maturities represent increasingly larger multiples of the typical trade size in the interbank market).

In addition, the proposed thresholds do not properly account for risk sensitivity; in terms of DV01,<sup>13</sup> one estimate suggests that the proposed \$160mm for 30-year rates would result in approximately 430k/01-450k/01 and the \$550mm for 3-year rates would result in approximately 150k/01-170k/01.<sup>14</sup> This understates the difference between the two products, given that a 3-year interest rate swap is much more liquid than a 30-year interest rate swap due to the availability of Eurodollar hedges. DV01s move over time, but the proposed thresholds are static and thus do not represent the instruments' changing levels of risk. Additionally, the current (and proposed) notional thresholds for block trades represent a significantly larger amount of interest rate risk relative to when the rules were first adopted.<sup>15</sup> If the Commission needs to pursue a notional-based framework, the levels should be established more conservatively to account for the fact that they are only proxies for true risk.

Similar to the current rules, the proposed approach fails to consider that, in different instruments, different sizes of trades will have characteristics that should make them eligible to be block trades. In other words, by uniformly applying the 67% Calculation across a number of swap categories, the Proposal makes the flawed assumption that each of these categories possesses the same levels of market liquidity and risk sensitivity.

## **2. The Uniform 67% Calculation Will Negatively Affect U.S. Swap Market Structure**

Treating swaps with various degrees of liquidity equivalently by applying the uniform 67% Calculation is likely to widen bid/offer spreads and reduce liquidity, and will force large-sized transactions to be printed with their full size. These problems are exacerbated for contracts that

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<sup>12</sup>See Proposal at 21534 (providing that some swap products should have a block size of zero because of the low levels of liquidity).

<sup>13</sup> DV01 stands for "Dollar value of a basis point" and refers to the exposure of a swap position to a move of 1 bps in the forward rate curve.

<sup>14</sup> See Letter Appendix for more information regarding this data point.

<sup>15</sup> This is attributable to the lengthening of duration at all maturities as rates have materially declined. In other words, due to the fall in interest rates over the past several years, interest rate risk was also adjusted accordingly. For example, 3-year loan has a much lower rate than it did 8 years ago; therefore this has resulted in the 3 year maturity for those loans now being lengthened so that the same interest rate would rather apply to a longer-term loan, *i.e.*, a 10-year loan.

are required to be traded on a SEF. The proposed high thresholds will force a significant number of made available to trade (“MAT”) swaps that, today, are arranged off-SEF and then submitted to the SEF via a request-for-quote-to-one (“RFQ-to-1”) to now be executed solely on-SEF via an RFQ-to-3 (with their uncapped notional amounts disseminated to the public in real-time). Clients will thus be required to show their hand to three liquidity providers and could be exposed to information leakage.

For example, CDXIG block sizes are currently set at \$110mm and if the proposed thresholds are finalized, these block sizes will move to \$550mm, moving the block size by \$440mm. For all inquiries below \$550mm, clients will now have to send an RFQ-to-3. This very significant change will be introduced at a time when the market has experienced historic levels of volatility. Critically, given these sizes far exceed the average trade size for this instrument, the dealer that has transacted will be exposed to the “winner’s curse” whereby others will know that someone in the market will look to hedge such a large-sized transaction. Liquidity providers will need to account for this, and as a result, the average bid/offer spread will widen significantly and the cost of transacting with immediacy will rise meaningfully, leading to increased costs and time delays in executing hedges or adding to, or taking down positions. Higher prices and/or reduced liquidity will have a direct impact on end-users who will ultimately bear the increased costs or inefficiencies incurred when forced to split large trades into more liquid sizes.

There is no regulatory reason to subject the market to these negative impacts when the Commission has already achieved its transparency goals for swaps trading, including SEF trading. Market data collected by one firm indicates that, in 2019, with respect to SEF trading, approximately 96% of 2-year IRS, 97.31% of 3-year and 5-year IRS, 97.67% of 10-year IRS, and 99.26% of 30-year IRS were below current block sizes and reported in real time.<sup>16</sup> Additionally, in relation to SEF activity, 68.59% of notional volume in the 2-year IRS sector, 80.13% of notional volume in the 3-year and 5-year IRS sectors, 77.80% of notional volume in the 10-year IRS sector, and 91.55% of notional volume in the 30-year IRS sector were executed via trades that were below current block sizes and thus disseminated in real time.<sup>17</sup>

Moreover, unattainably high block thresholds will put SEFs at a competitive disadvantage with non-U.S. trading platforms and shift execution (and trading business) away from the U.S. Given that the Commission issued trading venue equivalency to major EU Multilateral Trading Facilities and Organized Trading Facilities—which permit trading via an RFQ to-1 regardless of whether an instrument is subject to the EU mandatory trading obligation—there is a strong likelihood that U.S. firms will be inclined to satisfy their mandatory trading obligation by executing trades on these recognized trading venues.

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<sup>16</sup> One ISDA member firm collected and analyzed market data from February 2019 to November 2019. The data was filtered to include: USD IRS swap trades across Bloomberg and Tradeweb (*i.e.*, data from dealer-client platforms only); maturities (from the start date) of 2-year – 30-year; and rate quoted outright trades only (*e.g.*, single legged trades).

<sup>17</sup> *Id.*

To mitigate such disparity, the Commission could calculate separate and distinct block sizes for the SEF requirements, using only MAT instruments where the impacts of high thresholds are particularly detrimental. This could alleviate some of the consequences discussed above because what may be an appropriate block size for public dissemination purposes is often significantly above the appropriate block size for SEF RFQ-to-3 trading purposes.

The impact of an increase in prices and reduced liquidity resulting from the proposed high thresholds is particularly problematic for fund managers (and their clients), who generally trade on-SEF in larger-sized transactions to hedge their customer portfolios. If fund managers cannot execute these large transactions in one ticket (either due to decreased liquidity or higher prices), they will be forced to break down such transactions into smaller-sized transactions and will end up receiving different prices for trades that would have previously been executed in one ticket. To meet their hedging needs, firms will need to allocate each piece to a set of funds they manage—putting firms in the undesirable position of having to decide each individual fund’s pricing.

Accordingly, we strongly believe that the goal of enhanced price transparency must be balanced against the potential for a significant negative impact on market liquidity and pricing caused by block thresholds that are set too high and are not reflective of the different levels of liquidity and risk sensitivity of each instrument. In this regard, the Commission should adopt a more nuanced, dynamic approach that takes into account the different liquidity and risk sensitivity profiles, as well as the varying levels of regulatory requirements (SEF vs. non-SEF, public reporting vs. regulatory reporting only) for the different instruments.

### **3. The Scope of Data Used to Determine Block Thresholds is Overly Inclusive**

We acknowledge the Commission’s intent to recalibrate existing swap categories for block thresholds to tailor block sizes to the profile of the swap transactions within a particular swap category.<sup>18</sup> Despite these efforts, we are still concerned that the scope of data used to determine block thresholds is overly inclusive and not representative of all swaps in a particular swap category.

In addition, we are unable to fully comment on which instruments and activity have been appropriately included in each swap category in the absence of actual market-wide swap data. This also impedes our ability to assess the appropriateness of the proposed public dissemination time delay. Therefore, our recommendations are based on anecdotal data provided by some member firms.

As a preliminary matter, swap data should be analyzed through the lens of a particular market. For example, it is important to understand that credit derivatives tend to have large notional amounts when a new index is published but this only reflects clients rolling their accumulated positions into the new, on the run index (in many ways similar to futures rolls). Also, it should be

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<sup>18</sup> Proposal at 21534.



noted that large interest rate swaps will get executed as hedges to swaption positions, often in far larger sizes than what would be seen for any standalone swap leg. We believe that the Proposal does not take such a nuanced approach.

Further, we believe that the proposed block sizes were determined using data sets that included instruments outside of “delta-1 products.”<sup>19</sup> Specifically, the Commission may have included swap products with optionality when determining the block and cap thresholds for a particular swap category. The inclusion of non-delta-1 products results in skewed block and cap sizes for swap categories that have active options markets, because non-delta-1 products tend to trade in higher notional amounts (than delta-1 products) and thus are not representative of the underlying products (*i.e.*, the delta-1 products) that make up the rest of the swap category. Our assumption is confirmed by the fact that, under the Commission’s proposal, products with very active option markets have significantly higher block sizes than those without options markets. For example, the proposed block size for CDXIG, which has very active options markets, is \$550 million notional; while the proposed block size for CDXEM, whose markets have very little option activity is \$51 million notional.

The Commission should also revisit the appropriateness of inclusion of other products that trade in sizes that are not necessarily representative of the underlying product, such as:

- trades that are the result of compression exercises and tear-ups;
- error cancellations and corrections;
- package trades;
- rolls with respect to all asset classes (but particularly important for credit during the months of March and September); and
- cross-currency swaps (with respect to FX asset classes only).

Similar to products with optionality, these types of trades tend to have higher notional sizes or otherwise non-representative notional sizes as compared to the relevant underlying product. In addition, some of these products (*e.g.*, compression transactions) do not have any price discovery value and therefore should not be included in threshold calculations in the first place.

In short, including certain non-representative products when determining block sizes results in inflated thresholds that do not accurately reflect the block trading activity of a particular swap category.<sup>20</sup> Thus, the Commission should either: (1) recalibrate the proposed block sizes by excluding such products from its data sets; or (2) create new categories that would distinguish between these products.

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<sup>19</sup> Delta-1 products refer to financial derivatives that have no optionality, which means that for a given instantaneous move in the price of the underlying asset there is expected to be an identical move in the price of the derivative.

<sup>20</sup> In any case, in the interest of market stability and based on our analysis of market conditions since the current thresholds were put in place, any changes to block thresholds should not exceed double their current size. Introducing such dramatic levels of change will significantly diminish market liquidity and substantially increase trading costs for market participants. This is particularly important now—at a time when markets are very fragile as a result of the COVID-19 pandemic.

In this regard, we ask that the Commission, prior to finalizing the rules, republish for public comment revised notional block sizes and accompanied data sets to allow market participants to comment on the revised thresholds (with the expectation that a few iterations between the CFTC and market participants may be required before reaching an appropriate outcome). Once the thresholds are recalibrated, we look forward to engaging with the Commission on whether the 48-hour time delay is appropriate across all swap categories or whether a shorter-time delay may be warranted in certain cases.

Separately, but equally important, we believe that the data sets used to determine block sizes should capture calm and stressed market conditions. For example, over the past few months, the derivatives markets have experienced increased volatility and diminished liquidity. During this time, our members have observed that it has become increasingly difficult to execute large-sized trades under the current thresholds—which are significantly lower than the proposed thresholds—due to such diminished liquidity and increases in volatility. In order to ensure that the new thresholds are appropriate for all market conditions, they must be based on data that reflects both calm and stressed market conditions.

#### **4. Procedural Recommendations**

While block and cap thresholds have not been changed since they were first established in 2013, we anticipate that the Commission may revise thresholds on a periodic basis as Swap Data Repository (“SDR”) data evolves over time. Should the Commission decide to change block and cap sizes in the future, based on the SDR data at that time, we believe that such changes should be subject to the notice and comment process under the Administrative Procedure Act, regardless of whether the swap categories or methodologies used remain the same. As we explained above, block and cap thresholds have significant impacts on swaps markets trading, liquidity, and pricing. It is therefore important that market participants are given the opportunity to comment, upon the change of these thresholds.

To reiterate, the key to determining appropriate block and cap thresholds for a particular swap category is the relevant level of liquidity and risk sensitivity. Both these measures evolve over time and can rapidly change under volatile, or otherwise unusual market conditions. The COVID-19 crisis has reinforced the critical need for the Commission to be able to quickly exercise regulatory flexibility and adjust block thresholds during a time of diminished trading liquidity. As noted above, our members have observed that it has become increasingly difficult to execute large-sized transactions on a SEF via an RFQ-to-3 due to the limited availability of market makers and diminished trading liquidity. Since the current rules do not provide for a mechanism to temporarily reduce block thresholds, firms have been forced to break up large SEF-mandated trades into smaller, more liquid trades—resulting in increased costs and inefficiencies. To avoid this outcome in the future, we believe that the Commission should provide a formal adjustment mechanism in its rules that would allow market participants to petition the Commission to temporarily change block and cap thresholds based on observed market conditions, or enable the CFTC’s Division of Market Oversight to do so, subject to a public comment process.



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We appreciate the opportunity to submit our comments in response to the Proposal. Our members are strongly committed to maintaining the safety and efficiency of the U.S. swaps markets and hope that the Commission will consider our suggestions, as they reflect the extensive knowledge and experience of trading professionals within our membership.

Please contact us or Bella Rozenberg at (202)-683-9334 should you have any questions.

Sincerely,



Scott O'Malia  
Chief Executive Officer,  
ISDA



Ken Bentsen  
Chief Executive Officer and President,  
SIFMA

## APPENDIX<sup>21</sup>

Below, we provide anecdotal data regarding the impact the proposed block thresholds would have on various swap asset classes. The data below was provided by one firm, but we believe it is illustrative of the issues presented by the Commission's proposed block trade rules. We look forward to engaging with the Commission further on the data produced below as well as on any other data points the Commission may find helpful as it endeavors to finalize the block trade rules.

### Rates:

- Data Set Used: 2018 – 2020 YTD for USD swaps which (i) includes SEF executed outright, spread, curves, flies and swaps spread trades, and (ii) excludes compressions, basis trades and trades under 1-year tenor.
- Trade Count Measure: When measuring trading activity over the 2018-2020 period by trade count, it appears that under the current block sizes an average of between 8% and 12% of executed trades were block trades. These percentages change when splitting the data between SEF trading activity and off-SEF trading activity. For SEF trading activity, an average of 3% to 7% were block trades. However, if the proposed block sizes are applied, these percentages drop dramatically. Of all trading activity, an average of 2% to 5% would be block trades (vs. the 8% to 12% range above) which represents a drop of around 60% to 65% of executed block trades. For SEF trading activity, an average of between 1% and 3% would be block trades (vs. the 3% to 7% range above), which represents a drop of around 60 to 65% of executed block trades.
- DV01 Measure: As discussed in our letter above, the proposed thresholds do not properly account for risk sensitivity; in terms of DV01, the proposed 160mm for 30-year rates would result in between 430k/01-450k/01 and the 550mm for 3-year rates would result in 150k/01-170k/01. This understates the difference between the two products, given that a 3-year interest rate swap is much more liquid than a 30-year interest rate swap due to the availability of Eurodollar hedges. Although DV01s move over time, the proposed thresholds do not represent the instruments' respective levels of risk. In addition, the current (and proposed) notional thresholds for block trades currently represent a significantly larger amount of interest rate risk relative to when the rules were first adopted. This is attributable to the lengthening of duration at all maturities as rates have materially declined. Further, in theory, the 67% block size should result in the largest 33% of trades to be executed as a block. However, when measuring SEF-trading activity by DV01 and applying the proposed block sizes, it appears that on average, risk-transfer can occur between 15% and 18% across all tenors. In addition, when comparing the

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<sup>21</sup> We note that the data included in this Appendix represents approximate values and figures. We can provide the Commission with more specific numbers in further engagement, after we have had more time to collect and refine the data.

proposed block sizes with the trade data measured by DV01, it appears that around 67% of risk transfers occur at half the proposed block sizes across the majority of the tenors. This evidences a wide discrepancy between the proposed block sizes and what block sizes would be according to trade data measured by DV01.

- Interbank Hedging Sizes: From a hedging perspective, the proposed thresholds are multiples larger than the average trade size in the interbank market. The ratio on average is 4.254 between the average trade sizes in the interdealer market and the proposed block sizes, which indicates that it will become much more difficult to offload risk from executed block trades.
- Multi-leg Swap Trades: Applying the block size to the longer tenor for certain multi-leg strategy trades means that the lower tenor leg could be significantly above their corresponding block threshold, making it harder to hedge the overall position. For example, in a 5y/10y/30y fly, the block size is driven by the long leg (in this case, 120mm for the 30y). The equivalent “block” in 5y is about 3x the individual block leg size and the equivalent block in 10y is about 4x the individual block leg size. Therefore, to enable firms to properly hedge these trades, block thresholds should be set to lower thresholds for multi-leg swaps, or at a minimum, multi-leg swaps should be considered separately and have unique block thresholds.

### Credit:

- Data Set Used: Q1 2020 market data for CDXIG and CDXHY (to measure volume) and one firm’s internal data from May 17<sup>th</sup>, 2019 to May 16<sup>th</sup>, 2020 (to measure trade count).
- Trade Count Measure: When measuring trading activity over Q1 by trade count, it appears that under the current block sizes, approximately between 15% and 20% of total executed CDXIG and CDXHY were block trades. However, when considering the proposed block sizes, these percentages drop dramatically to less than 5%, which represents a drop of greater than 90% of executed block trades.
- Volume Measure: When measuring all trading activity by volume and by trade size over Q1, it appears that: (i) for CDXIG, the 67% block size is met in the 100mm-250mm bucket, representing a difference of between 22% and 55% when compared to the proposed block size of 550mm; and (i) for CDXHY, the 67% block size is met in the 25-50mm bucket, representing a difference of between 22% and 75% when compared to the proposed block size of 110mm.

## **FX:**

- For linear derivatives like NDFs, it is appropriate to use notional amounts to measure liquidity and hedging difficulty and the results are largely in line with what we would expect based on the currency pairs.
- For FX options, however, using notional amounts is not an appropriate measure to determine block thresholds because:
  - (i) certain non-vanilla options such as, “FXDualCurrencySecurity” or “FXAvgRateOption” have significantly high notional amounts and yet there are no exchange of cash flows, thus producing skewed results; and
  - (ii) even if the analysis is restricted to just vanilla FX options, notional amount is still not the adequate metric to size the risk; it is difficult to hedge such risk, given that other drivers (such as the tenor, the strike, etc.) play a significant role.
- As explained above, combining FX options notional amounts with NDF notional amounts results in materially high block sizes for NDFs. Plus, typically, FX options have, on average, higher notional amounts than NDFs.

## **Commodities:**

- Proposed Swap Categories: The Commission’s proposal to use very broad swap categories (and not specific futures contracts) leads, in some areas such as oil and natural gas, to less liquid products being subject to high thresholds. This approach may be acceptable for the more liquid products in the oil and natural gas categories, but not for the less liquid products in such categories. In general, the proposed thresholds per swap category for commodities in conjunction with the proposed “masking” logic may make it possible for market participants to infer for certain trades the specifics of the underlier of the trade that has been executed, leaving no time for the dealer to hedge its position particularly in less liquid products areas. In addition, the proposed high thresholds for certain commodity asset classes undermine the anonymity provisions for commodities under the real-time reporting rules.<sup>22</sup> For example, for gold and silver, which have proposed block sizes of 66mm and 41mm respectively, market participants may be able to infer that a large-sized trade reported under the “All Remaining Other Commodities” reporting field of the real-time reporting rules may be either gold or silver, because the other commodities in that category have significantly lower block sizes (with the biggest being cattle at 10 mm and the remaining commodities falling far behind).

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<sup>22</sup> 17 C.F.R. § 43.4(d).

- Data Set: Similarly, as commented for other asset classes above, commodity options should be either excluded from other commodity data sets or analyzed separately, because options activity tied to commodities tend to trade in higher notional amounts and thus may inappropriately inflate block thresholds for commodities.
- Transparency: We ask the Commission to provide more information regarding how the proposed thresholds were determined for commodities. We note that the proposed block sizes for gold and silver appear very high compared to observed activity. More specifically, the proposed block threshold for silver when compared with the proposed block threshold for gold seems extremely high and hard to support when compared to observed market activity.