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Chairman Christopher Dodd  
534 Dirksen Senate Office Building  
Washington, D.C. 20510

Ranking Member Richard Shelby  
304 Russell Senate Office Building  
Washington, DC 20551

Senator Jack Reed  
728 Hart Senate Office Building  
Washington, DC 20510

Senator Judd Gregg  
201 Russell Senate Office Building  
Washington, DC 20510

Dear Chairman Dodd, Ranking Member Shelby, Senator Reed and Senator Gregg,

The Wholesale Markets Brokers Association, Americas (WMBA) is supportive of your efforts to bring more effective regulation to the over-the-counter (OTC) markets for derivative financial products. The Restoring American Financial Stability Act of 2010 (the Act) provides an effective framework for providing oversight of the previously unregulated derivatives marketplace. The WMBA supports providing meaningful and timely market transparency for regulators and the public. We also support a regulatory structure that ensures operational efficiency and safety through appropriate requirements for clearing of standardized transactions.

We write to share our concerns with you related to the bill reported out of the Senate Banking Committee which jeopardizes the ability for these robust markets to remain a source of liquidity for American business by imposing a monopolistic market structure on the trade execution of cleared transactions. Our particular interest lies with the definition, role and regulatory responsibilities of alternative swap execution facilities (ASEFs) in Section 720. Specifically, we think that these provisions do not accurately reflect the role that ASEFs serve in the marketplace and, if enacted, could result in harmful unintended consequences to the detriment of liquidity providers and all market participants, including end-users.

The WMBA is the trade association representing the firms that provide wholesale pricing between dealers in the OTC markets. Our members operate in all of the cash markets (US Treasury securities market, corporate bonds, municipal bonds, etc.) and in the derivatives markets as well. Generally speaking, OTC markets that operate through wholesale markets brokers exist to create a marketplace for competitive price discovery for asset classes and products that do not lend themselves to a "one size fits all" environment. There is, of course, also an OTC market where dealers trade directly with their clients or with other dealers.

For example, one share of IBM stock is one share of IBM stock. Whether you buy 100 shares or 1 million shares, the price of one share is what the price of that share is. However, in the US Treasury securities or other primarily OTC markets, there are literally thousands of issues, maturities and

structures under the name of one issue. Whether it is a government or company, when a bond is issued, its terms and all other factors create a unique product that must be individually priced for buyers and sellers. This is also true in the derivatives markets, even for relatively simple contracts. Members of the WMBA assist market participants by working to develop market interest on behalf of buyers and sellers and to generate multiple bids and offers to ensure that participants have competitive pricing before a trade is made.

For products that are traded more frequently, WMBA members provide this price discovery service through electronic trading platforms they developed and operate. Other products may require much more human involvement to actually generate interest for a particular product. Many transactions may actually be executed through a human broker and then processed electronically. There is also a growing element of hybrid transactions that have both electronic and human elements. The mode of execution is determined not by limitations of technology or ingenuity, but rather by the availability of competitive pricing for multiple market participants. The ultimate objective is to provide buyers and sellers the most competitive pricing, whether those prices can be obtained electronically or through other means. This is particularly true for large block trading where both the structure and timing of the transaction must be designed to ensure competitive pricing and minimal market disruption.

In light of the role WMBA members play in these markets, the Association supports a responsible regulatory regime governing the OTC derivatives markets and increased use of central counterparties (clearing) to ensure that markets operate more efficiently and safely. The WMBA has also endorsed the concept of ensuring that the OTC derivatives markets are more transparent and we have been fully supportive of having all trades reported to regulators and repositories.

However, we have been strongly opposed to forcing derivatives transactions to be conducted in monopolistic exchanges because we believe that, while exchanges can provide competitive pricing for certain types of products that fit within a finite number of contracts, they are not equipped to provide the most competitive pricing for buyers and sellers in the markets when the number and array of products and terms becomes much more numerous and varied.

The legislation approved by the Senate Banking Committee follows the futures market model by requiring derivatives transactions to be cleared by derivatives clearing organizations and then, apparently, requiring all cleared trades to be conducted in an exchange setting. This legislative linkage of clearing and trade execution creates the very monopolistic structure that the Justice Department had warned in 2008 was anti-competitive. (TREAS-DO-2007-0018, issued January 31, 2008)

Furthermore, the legislation currently includes inappropriate “core principles” which lay out oversight responsibilities for ASEFs. While it is entirely appropriate for ASEFs to have oversight and compliance responsibilities, particularly as part of this regulatory reform effort, the responsibilities required in the legislation are crafted in a manner that further substantiate our concern that the current version of the legislation creates a futures model monopolistic structure

where trades in specific contracts can only occur on one exchange. Ideally, there would be numerous competitive ASEFs to ensure that buyers and sellers have competitive trading venues to use that competition to ensure optimum price and cost competition. However, because the core principles in the bill potentially can only be met if the ASEF controls the entirety of the market for different products (e.g. in controlling position limits and other related requirements), when taken together with the draft's definition of an ASEF, the only conclusion that one can come to is that the current bill designs an ASEF to effectively function as a monopolistic futures exchange.

For all of the reasons above, the WMBA believes that the derivatives title would be more appropriate if it outlined a wider variety of competitive activity than what amounts to mandated exchange trading. This change to the Act will help to ensure that end-users and all market participants have access to deep markets and liquidity to ensure competitive pricing. Furthermore, it is essential to adjust the "core principle" oversight requirements to be more consistent and applicable to a competitive marketplace and competitive ASEFs. If only monopolies can meet those requirements, competition in the marketplace will be stifled.

Finally, the definition also appears to require ASEFs to be completely electronic trading systems (without human brokers) where prices are posted continuously electronically. The problem is that continuous pricing presumes there will always be multiple market participants willing to buy and sell at particular prices at all times. Since the act of posting a price requires a market and capital risk, our concern is that this electronic posting will not result in competitive pricing and market participants will ultimately suffer.

It is important to recognize that the US Treasury securities market is the most liquid market in the world and is an OTC market utilizing electronic, voice and hybrid trading to provide maximum liquidity for different types of trades (on the run, off the run, etc.). The need for such flexibility is also clear in the derivatives market. There will be numerous standardized and cleared trades that would benefit from a liquidity standpoint if greater market interest was generated with the intervention of a human broker.

The bill would limit the flexibility of market participants to obtain competitive pre-trade price discovery. The "one size fits all" approach that would result from the de facto exchange trading requirement in the current version of the bill would hurt the depth and competitiveness of the market. Furthermore, if the goal of policy makers is to ensure that the number of standardized, cleared transactions is maximized, by limiting the trade execution to only those transactions that are conducive to continuous pricing the number of "standardized" trades could actually go down as a result of the proposal.

We sincerely hope that as the legislative process on the financial reform legislation unfolds, these issues can be dealt with constructively and favorably. We believe that the end result will be very sound and strong legislation that will provide for open and competitive markets for all market participants in a manner that is subject to strong regulatory oversight.

Thank you for your leadership on this issue.

Sincerely,



Christopher Giancarlo  
Chairman

Executive Vice President - Corporate Development  
GFI Group

cc: Mr. Timothy Geithner, Department of the Treasury  
Ms. Mary Schapiro, Securities and Exchange Commission  
Mr. Gary Gensler, Commodity Futures Trading Commission  
Mr. Benjamin Bernanke, Federal Reserve Board of Governors  
Mr. Lawrence Summers, National Economic Council