MEMORANDUM

TO: File

FROM: Sarah Schandler

RE: Meeting with Tradeweb LLC regarding Proposed Regulation of Swap Execution

Facilities (SEFs) under the Dodd-Frank Act of 2010

DATE: September 8, 2010

On September 8, 2010, Nancy-Burke Sanow, Michael Gaw, Adam Glass, David Dimitrious, Matthew Daigler, Michael Reedich, Susan Ervin, Steven Varholik, Kathleen Gray, Iliana Lundblad, and Sarah Schandler met with Billy Hult (President, Tradeweb LLC), Jonathan Williams (Managing Director, Tradeweb LLC), Douglas Friedman (Managing Director and General Counsel, Tradeweb LLC), Simon Hylson-Smith (Global Head of Communications, Tradeweb LLC) and Woody Garavente (Director, Tradeweb LLC).

The participants at the meeting discussed: (1) Tradeweb's business operations and trading platform; (2) post-trade reporting of swap transactions; (3) block trades; (4) the definition of a SEF; (5) access to SEFs and clearing agencies that clear swaps; (6) the application of core principles to SEFs and (7) ownership and governance relating to SEFs.



Regulation of Derivatives Trading

September 2010

New York

Boston

London

Tokyo

Hong Kong

Tradeweb — Background



Tradeweb is a leading provider of online markets and a proven innovator in global electronic trading

- Formed in 1996
- Pioneer in developing fixed income electronic trading
- Leader in electronic trading of government bonds worldwide
- First to automate multi-dealer-to-customer derivatives trading online
- Front-to-back electronic solutions for both buy- and sell-side institutional traders
- Established global connectivity with clearinghouses and trade repositories





Growth and expansion of Tradeweb's institutional fixed income business since inception:

	1998	2010
Markets	1	20
Liquidity Providers	5	45
Liquidity Takers	10	2,000+
Average Daily Volume	\$500 Million	\$300 Billion+
Notional \$ Volume	\$150 Billion	\$400 Trillion
Number of Trades	33,000	18 Million+

Tradeweb's Current Regulatory Status



- In the United States, Tradeweb is a broker-dealer registered with the Securities and Exchange Commission and a member of FINRA.
- The Tradeweb Execution Facility is regulated as an Alternative Trading System pursuant to Regulation ATS under the Securities Exchange Act of 1934.
- The Tradeweb Institutional Fixed Income and Derivatives platform is a fully disclosed Dealer-to-Customer request-for-quote (RFQ) execution facility.
 - Does not hold customer funds or maintain customer accounts.
 - Clearance and settlement is done outside of Tradeweb systems.
- Tradeweb is regulated globally.
 - In Europe, the Tradeweb execution facility is regulated by the UK FSA as a "multilateral trading facility".
 - Additional licenses in Japan, Singapore, Hong Kong, Australia and Canada.

Tradeweb — OTC Derivatives Platforms



Participants have been trading OTC derivatives electronically on the Tradeweb execution facility since 2005.

IRS

Currencies: Dollar, Yen, Euro, Sterling, Swiss Franc and Swedish Kronor

- Launched in 2005 with two currencies
- Now 6 currencies
- Over 60,000 trades and \$5 trillion notional since launch
- Over 180 different companies have done a swap trade on Tradeweb in the last 15 months
- 91 trades per day average over the last 8 consecutive months

CDS

Indices: CDX, iTraxx

- Launched January 2005
- Real-time pricing from all 7 participating dealers
- Live, two-sided market pricing for a broad range of CDX and iTRAXX indices
- Unique Trading Protocols Request for Market (RFM) allows user to request a two-sided, live market from a single dealer.

Overview



Recently enacted Financial Reform Bill will have wide-sweeping impact on the OTC Derivatives markets and its participants

Regulators

- Required to draft rules that are consistent with the legislation and which will provide for greater transparency, efficiency, and reduction of systemic market risk
 - Require a majority of swap trades to be cleared (reduce risk)
 - Drive trading of clearable swaps to regulated electronic platforms – SEFs/DCMs/ Exchanges (transparency & efficiency)

Participants

- Concerned that a material disruption to market structure will impact liquidity
- Desire to protect information leakage of trades that could impact market
- Desire to maintain ability to customize terms to tailor to their risk management needs

Tradeweb Solution

The Tradeweb SEF will provide competitive electronic trade execution (RFQ). Solution will provide the required level of pre-trade transparency, meet the applicable core principles, and have electronic post-trade links to all CCPs. The Tradeweb SEF will also allow for block-size trades and voice assisted trades to be captured, traded, and processed.

What is a SEF?



Legislative Language

The term 'swap execution facility' has been defined as a trading system or platform in which multiple participants have the ability to execute or trade swaps by accepting bids and offers made by multiple participants in the facility or system, through any means of interstate commerce, including any trading facility, that- (A) facilitates the execution of swaps between persons; and (B) is not a designated contract market.

Regulatory Interpretation

- SEF definition should not be interpreted merely as a central order book because that would be redundant of the concept of exchanges/DCMs in the legislation
- Interpretation should recognize the distinction between SEFs and DCMs, and as such, should recognize trading models other than pure exchanges

 particularly, in light of the manner in which OTC derivatives trade
- Interpretation should be flexible to include various trading models, protocols, participants, access criteria, tradeable instruments, and public post-trade transparencies

What Should a SEF Be?



Consistent with the goals of the legislation, for institutional users, a SEF should:

- Provide pre-trade price transparency from multiple sources that provide an accurate indication of where a trade could get done on the execution facility;
- Incorporate a facility through which multiple participants can engage in competitive trade execution (i.e., must have competition among dealers);
- Be a bona fide venue through which to transact swaps business (e.g., venue must have minimum capital requirements);

- Have the ability to adhere to the core principles that are determined to be applicable to SEFs;
- Provide access to a broad range of participants in the OTC derivatives market, allowing such participants to have access to trades with a broad range of dealers and a broad range of CCPs; and
- Availability to access all CCPs and Trade Repositories

Trading Derivatives on SEFs



Access to the SEF

Pre-Trade Price Transparency

Trading Protocol

Clearing

Post-Trade Reporting

KEY CONSIDERATIONS FOR TRADING OF DERIVATIVES ON SWAP EXECUTION FACILITIES

Key Considerations for Trading Derivatives on SEFs



Access to the SEF

 A SEF's access criteria should be objective and provide for a recognition of the distinction between liquidity providers (e.g., swap dealers) and liquidity takers (i.e., buy-side clients, major swap participants and other participants in the market), which will in turn promote financial integrity and support liquidity in the market

 The key consideration should be to ensure that participants in the derivatives market have access to as broad a range as possible of the true liquidity providers – which will provide a true price-discovery function that might be diluted through a less disciplined, more openended exchange-like system

Pre-Trade Price Transparency

- A SEF must have pre-trade price transparency with respect to the instruments available for trading on its facility
- Access to a composite of real-time bid/offer indicative prices (based on prices contributed by participating liquidity providers) allows liquidity takers to spot the market in deciding the price at which they would like to execute

Key Considerations for Trading Derivatives on SEFs



Trading Protocol

- <u>Competition</u>: Create a competitive marketplace that encourages the provision of adequate liquidity to market participants
- Request for Quote Model: A fully-disclosed trading protocol, in which the liquidity taker (the client) can request (and receive) multiple, competitive prices simultaneously; the liquidity makers (dealers) are aware of their identities before a trade is executed, and have discretion as to whether to respond and/or trade with such counterparties. The trades are completed for the full size (i.e., no partial fills).
- Market Participants need to be able to customize deal structures that are tailored to their risk management needs
- <u>Block-Size Trades</u>: SEFs are required to establish rules for blocksize trades.
- A block trade for a swap is a swap with a delta or risk material enough to impact the pricing in the market if it were known or reported
- For block trades, must also consider liquidity characteristics of the instrument

Key Considerations for Trading Derivatives on SEFs



Clearing

- A SEF must have equal and fair access to all the CCPs, including equal treatment with respect to technological implementation
- Consider conflicts of interest of execution and clearing done by same venue
- Regulators need to understand the myriad of swaps that are traded because it may challenge the notion of what is "standardized." It is a market of highly customized trades which are not suited for a typical exchange-traded market

Post-Trade Reporting

- Post-trade transaction reporting requirements should be reasonable to protect provision of liquidity in the marketplace
- Reporting rules need to (i) take into account whether public disclosure will materially reduce market liquidity and (ii) prohibit reporting of information in a manner that identifies the participants to a transaction
- Consider what needs to be real-time v. delayed 30 minutes
- Consider TRACE methodology concerning block size (no specific size reporting above a certain size)
- Consider two types of reporting reporting to regulators v. reporting to public

Key Considerations for Core Principles



Core Principles should be applied with flexibility and consideration for how swaps are traded

Access Criteria for Participants

- A SEFs access criteria should be objective and provide for a recognition of the distinction between liquidity providers (e.g., swap dealers) and liquidity takers (i.e., buy-side clients, major swap participants and other participants in the market), which will in turn promote financial integrity and support liquidity in the market
- The key consideration should be to ensure that participants in the derivatives market have access to as broad a range as possible of the true liquidity providers which will provide a true price-discovery function that might be diluted through a less disciplined, more open-ended exchange-like system

Criteria for Instruments to be Traded

• Needs to recognize the myriad of swaps that are traded because it may challenge the notion of what is "standardized." It is a market of highly customized trades, which are not suited for a typical exchange-traded market.

Conflicts of Interest and Governance Rules

- Electronic markets need and benefit from the bank participation in platforms/venues they posses critical market expertise, and provide capital for innovation and more efficient workflow solutions
- There is a significant conflict of interest where CCPs also own execution venues, and such conflict needs to be resolved through rulemaking requiring equal and fair access of other execution venues to the CCP.
- The agencies should not impose hard caps/percentages of ownership the approach lacks flexibility and could have unintended consequences

Monitoring for Manipulation and Abuse

It is imperative for SEFs to have access to sufficient market data to compare to its participants' trade data

Key Considerations for Core Principles



Ability to Obtain Information

• SEFs need the authority from regulators to obtain information from its participants to ensure compliance with its rules and to report transactions and other information to regulators in accordance with the regulatory rules, including timing of reporting

Record Keeping and Reporting

- SEFs need fully-automated audit trail
- Rules need to be fair in respect to ensuring that reporting of certain trades does not impact liquidity
- · Consider real time v. delayed reporting

Position Limits or Accountability

This principle continues to be a big issue in terms of a SEF's ability to understand the parties' positions (i.e., each SEF will need a
full market view to enforce this principle). This would require cooperation among all the venues (SEFs, DCMs and CCPs),
including position information sharing agreements, so that if a position were exceeded, the SEF could block an execution.

Financial Integrity of Transactions

- Financial integrity of transactions will need to be addressed through SEFs requiring each swap executed on the platform to be sent to a CCP
- SEFs may need to require its swap dealers to have an internal credit check of its counterparties and for uncleared swaps, need ability to enforce documentation between counterparties

Emergency Authority

• SEF will need clear guidelines about communication and coordination with regulators (i.e., when SEF can invoke emergency authority and the notice requirements related thereto) but liquidation or transfer of open positions will be difficult for SEF's

Why is RFQ an Acceptable Model for SEFs?



What is RFQ?

A fully-disclosed trading protocol, in which the liquidity taker (the client) can request (and receive) multiple, competitive prices simultaneously; the liquidity makers (dealers) are aware of their identities before a trade is executed, and have discretion as to whether to respond and/or trade with such counterparties. The trades are completed for the full size (i.e., no partial fills).

A pre-trade composite of indicative prices, combined with a Request for Quote (RFQ) protocol provides the price transparency and competition that the legislation and rulemaking seek to achieve.

Why is RFQ an Acceptable Model for SEFs?



 This model recognizes the distinction between liquidity makers (dealers) and liquidity takers (buy-side clients) – which promotes financial integrity and liquidity on the platform.

The RFQ model strikes the right balance between a buyside's risk of information leakage based on the number of participants who see the trade, and having available to it a wide range of competitive, dealer quotes.

 The facility should maintain a permanent audit trail of the second-by-second details of each trade negotiation and all completed transactions, and allow parties to receive trade details and access post-trade affirmation and clearing venues.

Conclusion



Tradeweb is supportive of the objectives of the Dodd-Frank Act and believes that it achieves such objectives under its current business model. Specifically, it:

- Provides pre- and post-trade price transparency and seamless integration;
- Ensures efficient trade execution of derivatives;
- ✓ Provides participants in the derivatives market access to as broad a range as possible of the true liquidity providers – which will provide a true pricediscovery function that might be diluted through a less disciplined, more open-ended exchange-like system;
- Provides support for best execution;
- Generates digital records of all trades and trade inquiries;
- Maintains a permanent audit trail; and
- Provides global connectivity to relevant third parties, including clearinghouses and trade repositories.



Appendix

PRIVILEGED AND CONFIDENTIAL

New York

Boston

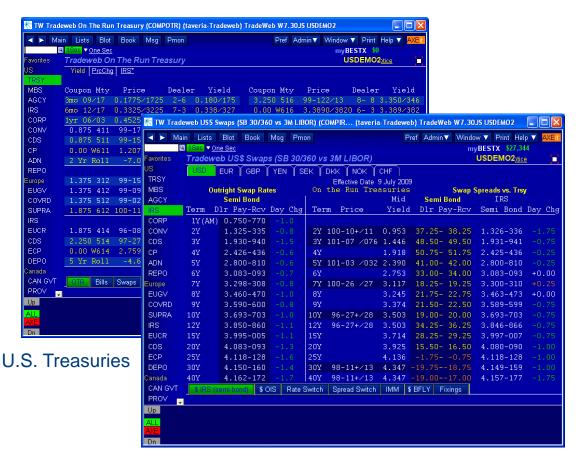
Londor

Tokyo

Hong Kong

Pre-trade Price Transparency





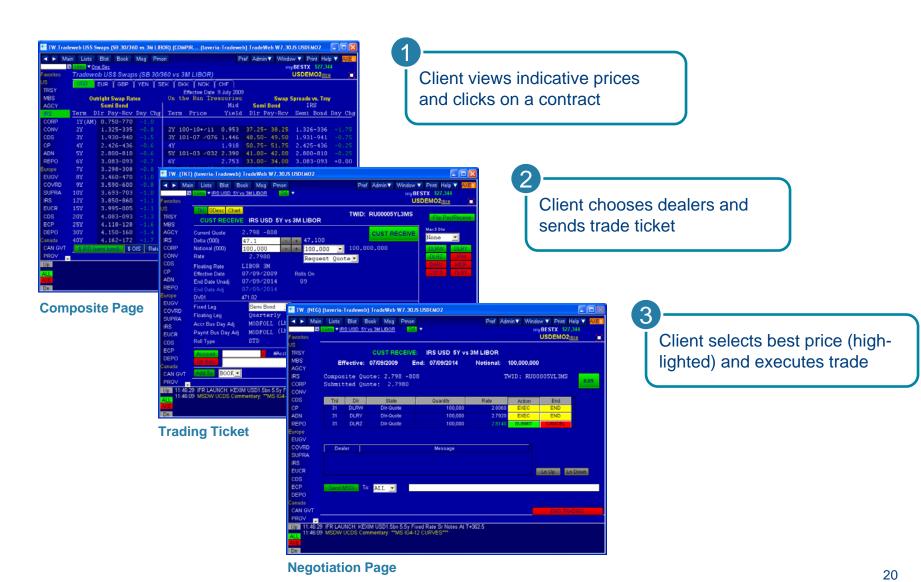
Tradeweb's pre-trade prices provide a realtime view of the OTC derivatives market.

More than 80% of all derivatives trades on Tradeweb are executed at or inside the pre-trade indicative price.

Interest rate swaps

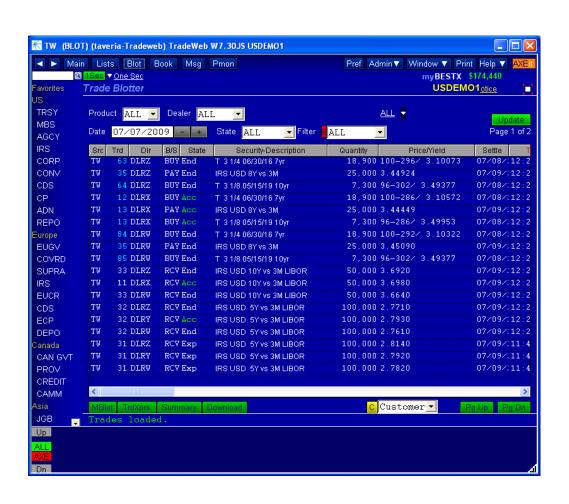
Trade Execution





Digital Record-keeping

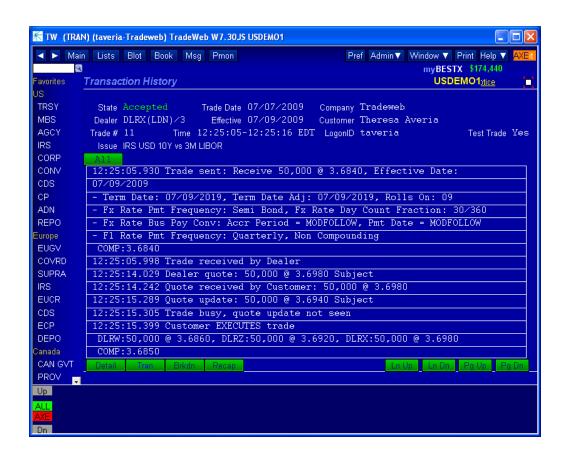




User's Trade Blotter provides a permanent, downloadable record of all trades and trade inquiries by clients.

Audit Trail





User's Transaction
History provides a
second-by-second record
of how the trade was
executed and processed.