OTC Online℠

OTC Online, LLC
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September 17, 2010

David A. Stawick, Secretary
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st Street, NW
Washington, DC 20581

Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

**Re: Definitions Contained in Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, File No. S7-16-1**

Dear Secretaries:

OTC Online, LLC files these comments on the advanced notice of proposed rulemaking regarding definitions in the Dodd-Frank Act. OTC Online, LLC develops technology that enables electronic execution and clearing of mixed swaps using real-time pre-trade permissioning.

We are writing to you to recommend that any security, future, option, swap or mixed swap that is composed of clearable elements should itself be either a swap, securities-based swap or mixed swap depending on its composition and as a result should also be clearable. The Dodd-Frank Wall Street Reform and Consumer Protection Act is unclear regarding excluding over-the-counter (OTC) options on securities and security indexes. Under Section 712(d), the Commissions have the authority to clarify this oversight. The risk management technology exists to bring the benefits of novation, transparency, and collateral efficiency to this important class of OTC contracts.

Some examples include: a) a spread option on two delivery months for a securities index should be defined as a clearable security-based swap; b) a securities-based swap composed of a listed stock plus a listed option, both of which are clearable, should be defined as a securities-based swap and be clearable in its own right; c) a contract composed of multiple legs each of which is a clearable swap, should itself be a clearable swap; and d) a contract that is composed of a clearable credit default swap plus a clearable debt obligation should be a clearable mixed swap in its own right.

We believe that this observation is a fundamental starting point for bringing the majority of over-the-counter (OTC) contracts within the protective risk-management environment of clearing. One cause of systemic risk is the lack of effective third party financial assurance protecting counterparties to OTC contracts in the event of default, which is in fact the purpose of clearing. Clearing on the elemental listed components of a swap cannot alone provide that assurance.

Data indicates that a large majority of OTC contracts are simply aggregations of listed products. This is true in the equity, debt, and commodity markets. This trend is likely to grow since most buyers of mixed swaps prefer the transactional simplicity of "strategy" orders. Thus the potential is high to clear large volumes of mixed swaps and thereby reduce systemic risk.

We recommend that the Commissioners adopt criteria that encourage the broadest possible application of clearing to OTC contracts. Clearing brings the benefits of novation and price discovery. We believe the public would benefit if most OTC contracts were cleared. Therefore, the Commissioners should adopt rules that require novation in the widest possible set of contracts.

Sincerely,

William E. Balson

Dr. William E. Balson
Director
OTC Online, LLC

Gordon Rausser

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