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

February 7, 2011

Re: Implementation of Real-Time Reporting Requirements for Security-Based Swaps (File Number S7-34-10)

Dear Ms. Murphy:

UBS Securities LLC is submitting this letter in response to the real-time reporting requirements for security-based swaps proposed by the Securities and Exchange Commission in Regulation SBSR – Reporting and Dissemination of Security-Based Swap Information.[1] While UBS agrees in concept with the SEC's decision to phase in the security-based swap real-time reporting requirements, we believe that the proposed timeframes for public reporting, scope of instruments to be reported and manner of reporting will negatively affect market liquidity. Our primary concern, and that of our clients, is that if trade terms of broadly illiquid security-based swaps such as single-name credit default swaps[2] are publicly disseminated immediately upon execution, participants that wish to hedge their risk in those trades will have difficulty doing so since the market may move against them. The ability to anticipate and trade against hedging behavior – in particular that of market makers – will compel market makers to price in the expectation of such a move, increasing the cost of using instruments that are subject to immediate public dissemination. We also believe strongly that a "one-size fits all" approach to reporting requirements for security-based swaps is entirely inappropriate, and that reporting obligations and dissemination timelines should be carefully calibrated to the liquidity of the relevant products.

UBS believes that the phased implementation of Regulation SBSR should be extended and that a number of key changes should be made to its requirements as follows:

- Calibrating reporting requirements to liquidity – There is insufficient liquidity in the single-name credit default swap market to support real-time public dissemination of non-block[3] transaction data for all but a handful of instruments without creating price moving events. We believe that reporting requirements should be calibrated to the liquidity of the relevant instrument, which should be determined based on both the number of transactions per day (based on true risk transfer[4]) over the preceding six months and the number of market makers regularly trading the instrument.[5]

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1 Regulation SBSR – Reporting and Dissemination of Security-Based Swap Information, Release No. 34-63346 (17 CFR Part 240).

2 Our proposal is specifically tailored to the market for single-name credit default swaps. As we note below, a single approach to implementation is unlikely to work across all asset classes in the security-based swap market, and we therefore believe that a similar analysis should be undertaken for each asset class.

3 The proposals in this comment letter apply to non-block trade security-based swaps. As a general matter, we note that Regulation SBSR does not specify the criteria that security-based swap data repositories will consider in setting block trade thresholds. Once those thresholds are set, we recommend that the general approach set out below, with longer time frames for public disclosure based on liquidity, be applied to public dissemination of block trade transaction information.

4 "True risk transfer" security-based swap transactions should exclude transactions relating to portfolio compression or similar exercises, and should be limited to new transactions and novations which occur on the same terms (other than pricing, size and tenor) with respect to the same reference entity.

5 We believe that security-based swaps traded by fewer than ten market makers per month should be treated as illiquid and subject to public reporting only on a weekly basis.

A recently published global study by the DTCC Trade Information Warehouse using data from between December 2009 and June 2010 analyzed trading activity in the top 1000 actively traded reference entities in the single-name credit default swap market and reported the following conclusions[6]:

- A total of 31 reference entities were traded on average at least ten times per day ("Bucket 1")
- A total of 94 reference entities were traded on average at least five but fewer than ten times per day ("Bucket 2")
- A total of 382 reference entities were traded on average at least two but fewer than five times per day ("Bucket 3")
- The remaining reference entities were traded on average fewer than two times per day or by fewer than ten market makers per month ("Bucket 4")

We recommend that the initial public reporting rules allow at least a 90-minute delay between time of execution and public dissemination of transaction data for those reference entities in Bucket 1, end-of-day reporting for those in Bucket 2, and next-day reporting for those in Bucket 3. Transaction data for the most illiquid reference entities – those in Bucket 4 – could be reported on a weekly basis.

- Reporting notional amount for trades – In an illiquid market, reporting the actual notional amount of a transaction will provide key information to the market about potential hedging activity. In order to minimize signaling and reduce the negative impact it will have on pricing and liquidity, we recommend that the size of non-block transactions having a notional amount greater than the standard quotation size for the relevant category of security-based swaps be disclosed by notional bucket (e.g., as "$1,000,000 or greater"). This is similar to the way that TRACE[7] reports the trade size of bond transactions. We recommend periodic review of data from security-based swap data repositories to determine the standard quotation size (based on non-block transaction data). Based on our analysis, we would suggest bucketing of high yield (sub-investment grade) single-name credit default swap transactions having a notional amount of $1MM or greater, investment grade single-name credit default swap transactions of $5MM or greater, and sovereign single-name credit default swap transactions of $5MM/$10MM or greater (depending on region).

- Phasing implementation – It is critical that the SEC take an incremental approach to public reporting, starting with a set of rules designed to provide meaningful public information on trading activity within a reasonable time frame and expanding those rules only after the effect on liquidity has been adequately assessed. We recommend that the SEC work with market-makers, end-users and the Financial Industry Regulatory Authority, after the initial public reporting rules have been implemented and are operating, to study the impact of public reporting on liquidity in the security-based swaps market and to determine whether changes should be made to the framework (for example, by expanding public dissemination of transaction data to a wider scope of instruments).

We believe that it would be appropriate to phase in the public dissemination of security-based swap transaction data and the specific timings for public reporting, in each case based on the liquidity of the relevant class of security-based swaps. We recommend that the initial phase of public reporting and dissemination for single-name credit default swaps be limited to Buckets 1 and 2. Trading in these reference entities represents approximately 45% of the aggregate trading activity across the top 1000 actively traded reference entities based on trade count (which we believe to be a conservative metric – these reference entities represent a substantially higher proportion of the total notional traded).

TRACE provides a useful example of an incremental approach to implementing real-time reporting. TRACE started in July 2002 with reporting on a subset of bonds (based on liquidity), with public reporting within 75 minutes of execution. Subsequent changes in 2003 and 2005 expanded the instruments subject to reporting and reduced the time for public reporting to 45 minutes and then to

[6] Buckets 1 through 3 include only those reference entities that are traded by more than 10 market makers per month.

[7] See the TRACE User Guide, version 2.4 (last updated March 31, 2010), at p 50.

15 minutes. The TRACE experience demonstrates the length of time required to study, review and assess the effects of real-time reporting on market liquidity, as well as the need to provide adequate lead time for market participants to build a common infrastructure for reporting.

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UBS is grateful for the open manner in which the SEC has addressed issues arising in connection with the implementation of the security-based swap real-time reporting rules. We welcome the opportunity to provide additional information regarding our views on this topic, as well as any other issues related to the Dodd-Frank Act.

Respectfully submitted

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