CITADEL

DECEMBER 22, 2011

Via Electronic Submission: http://comments.cftc.gov

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

Re: Request from ICE Clear Credit to Permit Portfolio Margining of Swaps and Security-Based Swaps (Filing Number IF 12-002)

Dear Mr. Stawick:

Citadel LLC[1] ("Citadel") appreciates this opportunity to voice its support for ICE Clear Credit's petition[2] (the "ICE Petition") for an order from the Commodity Futures Trading Commission (the "Commission") that would permit portfolio margining of swaps and security-based swaps.

We fully support prompt approval of the ICE Petition because it would:

I. Reduce systemic risk

II. Facilitate the transition to central clearing and remove core barriers to buy-side access to clearing

III. Ensure consistent treatment in the event of an FCM/BD insolvency; and

IV. Combat competitive inequality in the swaps market.

We believe these goals were fully understood by Congress in framing and approving Section 713 of the Dodd-Frank Act, empowering the Commission to facilitate portfolio margining. The industry has reached a critical point in efforts to open the clearing of swaps to buy-side access, and the Commission's approval of portfolio margining is central to eliminating a key economic barrier to increased buy-side participation, in preparation for full industry compliance with the clearing mandate in 2012. We believe an order from the Commission is essential and fully supported from a cost-benefit perspective.

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[1] Established in 1990, Citadel is a leading global financial institution that provides asset management and capital markets services. With over 1,100 employees globally, Citadel serves a diversified client base through its offices in the world's major financial centers including Chicago, New York, London, Hong Kong, San Francisco and Boston.

[2] http://www.cftc.gov/stellent/groups/public/@rulesandproducts/documents/ifdocs/iceclearcredit100411public.pdf

I. Reduces systemic risk

- An efficient portfolio margining regime reduces systemic risk by removing excess interconnectedness from the marketplace and optimizing initial and variation margin payments and collateral balances such that excess amounts are not needlessly held at the DCO or FCM/BD level.

- Portfolio margining incentivizes risk reduction through hedging and the maintenance of balanced portfolios.

- Portfolio margining also allows central clearing to deliver its promised systemic risk reduction benefits by facilitating the transition to central clearing and making central clearing economical for buy-side market participants, as outlined below.

II. Facilitates the transition to central clearing and removes core barriers to buy-side access to clearing

- In the present uncleared, bilateral swaps marketplace, swap dealers are able to offer portfolio margining to their customers, resulting in substantial initial margin efficiencies.

- If similar portfolio margining is not available for cleared swaps, customers will face substantially higher initial margin requirements for an otherwise equivalent portfolio, without a risk-based justification.[3]

- This would have the following adverse unintended consequences: (i) discourage customers from transacting in cleared swaps on a voluntary basis, (ii) once clearing is mandatory, discourage customers from participating in the swaps market in the first place; (iii) discourage market participants from seeking to expand the range of products available for clearing; and (iv) diminish returns that buy-side firms are able to deliver to their investors.

- These adverse consequences jeopardize the transition to central clearing, and represent a material impediment to buy-side access to clearing.

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[3] We understand that the Commission has extensively reviewed and approved ICE Clear Credit's portfolio margin / risk decomposition methodology from a risk perspective.

III. Ensures consistent treatment in the event of an FCM/BD insolvency

- Customers that trade Single Name CDS and Index CDS that are correlated and have economically equivalent characteristics need certainty that the treatment of the two classes of swaps following the insolvency of an FCM/BD is consistent.

- Absent this certainty, buy-side firms will be inhibited from clearing due to the potential for inconsistent treatment and dislocations that may occur since Single Name CDS positions in a 15c3 account and Index CDS in a 4d account would be subject to different bankruptcy rules and procedures.

- The 4d account is the logical place for portfolio margining to be offered since the volume of Index CDS outweighs the volume of Single Name CDS, and since other categories of OTC derivatives, including IRS and Commodity Swaps, will also be held in 4d accounts.

IV. Combats competitive inequality in the swaps market

- If an order is not granted, swap dealers and FCMs/BDs are nonetheless expected to be allowed to portfolio margin Single Name CDS and Index CDS in their house accounts, while their clients will not be allowed to do such portfolio margining in their customer accounts.

- This creates a fundamental competitive inequality in the swaps marketplace, whereby swap dealers will be able to maintain a cleared hedged CDS portfolio with substantially lower margin requirements.

- This is likely to have myriad adverse unintended consequences, including further entrenching the dominant position of a select number of swap dealers in the CDS marketplace.

- There is no reason that any such advantages in margin treatment that swap dealers receive in their proprietary accounts would be passed onto customers, e.g. through better terms or pricing.

- Rather, the higher effective cost of entering into cleared swap transactions would likely inhibit customers from being the best bid or offer in the market, relegating them to a permanent price taker position and leading to wider spreads overall. This would all be to the detriment of market efficiency and the returns that buy-side firms can deliver to investors.

V. Conclusion and cost-benefit considerations

- The costs of the Commission not approving portfolio margining are considerable, as set out above.

- There is no apparent cost to proceeding with an order – ICE Clear Credit has secured approval of the methodology itself, is committed to providing margin estimation tools to clearing participants, and is fully prepared to activate the enhanced margining approach.

- From a larger policy implementation perspective, industry momentum is gathering in preparation for buy-side access to, and fuller participation in, clearing. Allowing disparate and prejudicial margin treatment of cleared versus non-cleared portfolios, and of customer versus dealer portfolios, would impose a very substantial economic burden on buy-side participants and damage this momentum.

- Section 713 of the Dodd-Frank Act instructs the Commission, together with the SEC, to adopt rules to ensure that the benefits of portfolio margining can be realized, and Section 4d of the Commodity Exchange Act provides the Commission the authority to grant the requested relief.

- The benefits of portfolio margining should be made available to all market participants. Accordingly we urge the Commission to work together with the SEC to approve portfolio margining as soon as possible.

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We appreciate the opportunity to provide comments on the Proposed Rules. Please feel free to call the undersigned at (312) 395-3100 with any questions regarding these comments.

Respectfully,

/s/ Adam C. Cooper

Adam C. Cooper
Senior Managing Director and Chief Legal Officer