CITADEL

July 25, 2016

Mr. Christopher J. Kirkpatrick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street NW
Washington, DC 20581

Re: Additional Clearing Submissions from Registered DCOs

Dear Mr. Kirkpatrick:

Citadel LLC[1] ("Citadel") appreciates the opportunity to provide comments to the Commodity Futures Trading Commission (the "Commission") on certain of the clearing submissions from registered derivatives clearing organizations ("DCOs"). These submissions relate to swaps that are offered for clearing but for which a clearing mandate has not yet been imposed.

The U.S. has been a global leader in implementing central clearing for the OTC derivatives markets. As a significant participant in these markets, we applaud the Commission for recognizing the important role of central clearing in achieving the Dodd-Frank Act objectives of reducing interconnectedness, mitigating systemic risk, increasing transparency, and promoting competition.

The Commission's first clearing mandate was finalized in December 2012 and covered both interest rate swaps denominated in USD, EUR, GBP, or JPY and certain index CDS instruments. This initial clearing mandate was instrumental in bringing much needed reform to the OTC derivatives markets. In addition to mitigating systemic risk and interconnectedness by eliminating the complex web of bilateral counterparty credit exposures, central clearing transforms how OTC derivatives can be traded, leveling the playing field, increasing competition and fostering new sources of liquidity for market participants. Since market participants no longer have ongoing credit exposure to each other following the execution of a cleared OTC derivative, complex bilateral trading documentation can be eliminated and a wider range of trading counterparties can be accessed. This transformation in trading spurs price competition and yields a number of benefits to market participants, including narrower bid-ask spreads, improved access to best execution, and increased market depth and liquidity.

We have already witnessed these benefits accrue to market participants in those OTC derivatives that are subject to the Commission's first clearing mandate. New liquidity providers

[1] Citadel is a global financial firm built around world-class talent, sound risk management, and innovative market-leading technology. For more than a quarter of a century, Citadel's hedge funds and capital markets platforms have delivered meaningful and measurable results to top-tier investors and clients around the world. Citadel operates in all major asset classes and financial markets, with offices in the world's leading financial centers, including Chicago, New York, San Francisco, Boston, London, Hong Kong, and Shanghai.

have entered both the index credit default swap and interest rate swap markets[2], and market research confirms the link between central clearing and improved liquidity. A recent study of the index credit default swap market found that "the reduced counterparty risk and increased post-trade transparency associated with central clearing have beneficial effects on liquidity."[3] Separately, recent Bank of England research found that the implementation of the Commission's clearing and trading reforms in the USD interest rate swap market led to a significant improvement in liquidity and a material reduction in execution costs.[4]

As other jurisdictions now begin to implement their own mandatory clearing determinations, we encourage the Commission to continue to proactively monitor existing clearing offerings and assess whether additional OTC derivatives are suitable for a clearing mandate in accordance with the criteria set forth in the Commodity Exchange Act.[5] As a result of the successful implementation of the Commission's first clearing mandate, a wide range of U.S. market participants have established the requisite clearing arrangements and are familiar with the associated operational workflows, evidenced by the trillions of dollars of OTC derivatives transactions that have been cleared by end investors since 2013.[6]

Therefore, we support the Commission continuing to expand the clearing mandate where appropriate in order to bring increased transparency, more competition, and better pricing to U.S. market participants in a wider range of OTC derivatives. In this regard, we believe the Commission should next focus its attention on (i) additional Index CDS instruments and (ii) FX NDFs.

I. Index CDS

In addition to the CDS indices covered by the Commission's first clearing mandate,[7] the CDX EM and iTraxx Senior Financials indices should be subject to mandatory clearing. Both of these indices are highly liquid at the 5 year maturity and are already cleared in significant volumes through mature clearing offerings. ICE submitted the CDX EM index for consideration by the

---

[2] *See, e.g.,* New players break into credit derivatives, FT (Nov. 17, 2015), available at: http://www.ft.com/intl/cms/s/0/22b83fa4-8c6e-11e5-8be4-3506bf20cc2b.html#axzz3rj5MtwiI; and Dealer algos strike back in swaps market showdown, Risk.net (Feb. 24, 2016), available at: http://www.risk.net/risk-magazine/feature/2446836/dealer-algos-strike-back-in-swaps-market-showdown.

[3] *See* Loon, Y. C., Zhong, Z. K. Does Dodd-Frank affect OTC transaction costs and liquidity? Evidence from real-time CDS trade reports. Journal of Financial Economics, 119 (3), 645–672 (2016) at page 4, available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2443654.

[4] *See* Staff Working Paper No. 580 "Centralized trading, transparency and interest rate swap market liquidity: evidence from the implementation of the Dodd-Frank Act", Bank of England (January 2016), available at: http://www.bankofengland.co.uk/research/Documents/workingpapers/2016/swp580.pdf.

[5] Section 2(h)(2)(D)(ii) of the Commodity Exchange Act.

[6] *See* LCH Daily Volumes – SwapClear Global, available at: http://www.lch.com/en/asset-classes/otc-interest-rate-derivatives/volumes/daily-volumes-swapclear-global; CME Open Volume Tracker, available at: http://www.cmegroup.com/education/cme-volume-oi-records.html; ICE Clear Credit, available at: https://www.theice.com/clear-credit

[7] The Commission's first clearing mandate covered (a) CDX IG, (b) CDX HY, (c) iTraxx Europe, (d) iTraxx Europe Crossover, and (e) iTraxx Europe HiVol.

Commission in May 2012 and subsequently submitted the iTraxx Senior Financials index in March 2014. In the years since those submissions, according to data from ICE, market participants have voluntarily cleared hundreds of billions of dollars of these transactions, with cleared volumes increasing each year.

These significant clearing volumes demonstrate that the infrastructure, rule framework and operational expertise already exist to support a clearing mandate, and that there are significant outstanding notional exposures and robust trading liquidity in these CDS indices. The existence of significant voluntary clearing also indicates the confidence that market participants have in the current DCO clearing offerings, including the integrity of the infrastructure supporting those offerings and the associated risk management and default management frameworks. This includes confidence in how wrong-way risk is addressed by the DCO's risk management framework, as similar to certain other iTraxx indices, the iTraxx Senior Financials index includes clearing members among its constituents.

We encourage the Commission to proceed with a formal assessment of whether the CDX EM and iTraxx Senior Financials indices are suitable for a clearing mandate in accordance with the criteria set forth in the Commodity Exchange Act.

II. FX Non-Deliverable Forwards

While FX non-deliverable forwards ("NDFs") only constitute a relatively small percentage of the entire foreign exchange market, they are an important segment of that portion of the market regulated by the Commission under the Commodity Exchange Act. In addition, market data shows that NDF trading volumes have significantly increased since 2008.[8] As a result, we urge the Commission to expand its clearing mandate so as to bring the benefits of increased transparency, more competition, and better pricing to U.S. market participants transacting in liquid FX NDFs.

Similar to the CDS indices discussed above, FX NDFs are already cleared in significant volumes through mature clearing offerings. LCH launched its clearing offering for FX NDFs in 2012, and now clears approximately $100 billion notional per month,[9] demonstrating the significant outstanding notional exposures and robust trading liquidity in these instruments. Notably, the Commission appeared to be considering imposing a clearing mandate for FX NDFs as far back as 2014, discussing the topic at a meeting of the Global Markets Advisory Committee and forming a Foreign Exchange Markets Subcommittee to study its implementation.[10] In its report,[11] the subcommittee did not identify anything to suggest that a clearing mandate would not be appropriate for liquid FX NDFs. Given that the market now has almost two years of additional experience with clearing FX NDFs, we urge the Commission to proceed with a formal assessment

---

[8] *See* Bank for International Settlements, "Non-deliverable Forwards: 2013 and Beyond," March 2014, available at: http://www.bis.org/publ/qtrpdf/r_qt1403h.htm.

[9] *See* http://www.lch.com/en/asset-classes/foreign-exchange/volumes.

[10] *See* http://www.cftc.gov/About/CFTCCommittees/GlobalMarketsAdvisory/gmac_100914agenda.

[11] *See* Foreign Exchange Markets Subcommittee, "Response to request for recommendation on an FX NDF mandate," Dec. 5, 2014, available at: http://www.cftc.gov/idc/groups/public/@aboutcftc/documents/file/gmac_fxndfmandate122214.pdf.

of whether certain FX NDFs are suitable for a clearing mandate in accordance with the criteria set forth in the Commodity Exchange Act.

* * * * * * * * * *

We appreciate the opportunity to provide comments on the Commission's mandatory clearing requirements. Please feel free to call the undersigned at (312) 395-3100 with any questions regarding these comments.

Respectfully,

/s/ Adam C. Cooper

Senior Managing Director and Chief Legal Officer