

August 21, 2017

Mr. Amir Zaidi, Director  
U.S. Commodity Futures Trading Commission  
Division of Market Oversight  
Three Lafayette Centre  
1155 21st Street, NW  
Washington, DC 20581

**Re: Review of Swap Reporting Rules**

Dear Mr. Zaidi:

Citadel LLC<sup>1</sup> (“Citadel”) appreciates the opportunity to provide comments to the Division of Market Oversight (“DMO”) on its review of the swap data reporting rules in Parts 43, 45, and 49 of the Commodity Futures Trading Commission’s (the “Commission”) Regulations. We applaud DMO’s initiative and fully support the goals of (a) improving the quality and accuracy of swaps data and (b) streamlining reporting requirements for market participants.

We look forward to actively engaging with the Commission as amendments designed to refine and enhance current reporting requirements are considered. At this stage, we provide the following suggestions on DMO’s “Roadmap to Achieve High Quality Swaps Data” (the “Roadmap”).

**I. Improving the Reporting of Package Transactions**

We agree with the Roadmap’s proposal to “address ongoing issues of reporting packages.” In certain asset classes, a significant percentage of overall trading activity is transacted as part of a package. It is therefore critical that the Commission and market participants have accurate data regarding the types of packages that are traded, and the amount of trading activity in each type. This information should assist the Commission in evaluating how certain regulatory requirements are best applied to package transactions, and would aid market participants in better understanding swap market activity.

In order to accurately identify package transactions, we support a “Package ID” field that would be used to link separately reported components of a single package. In addition, it would be useful to gather data on how many components are associated with a given package transaction and whether any non-reported instruments are included. Finally, since packages are typically priced and executed as a single trade, ideally one price for the entire package would be reported rather than requiring market participants to impute a price for each leg. We note that CPMI-

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<sup>1</sup> 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.

IOSCO has proposed to include additional data reporting fields for packages in its recent consultative report.<sup>2</sup>

## II. Streamlining the Reporting of Cleared Swaps

In accordance with the Roadmap objective of streamlining reporting workflows, we believe there are ways to improve the reporting of cleared swaps. First, we urge the Commission to reconsider whether it is necessary to report an intended-to-be-cleared “alpha” swap to swap data repositories (“SDRs”). For cleared swaps, current regulations require the reporting of (a) the “alpha” swap (representing the intended-to-be-cleared swap that temporarily exists prior to its acceptance for clearing), (b) the subsequent cancellation of the “alpha” swap post-clearing acceptance, and (c) the “beta” and “gamma” cleared swaps. This approach creates several duplicate records in an extremely short window of time, given that the Commission’s straight-through-processing rules result in many “alpha” swaps being successfully cleared (and therefore cancelled) almost immediately following execution. Consideration should be given to whether the reporting of “alpha” swaps to SDRs can be eliminated without impacting compliance with the separate real-time public reporting requirements. Part 45 reporting would then focus only on the post-clearing “beta” and “gamma” swaps, thereby simplifying reporting workflows for cleared swaps.

In addition, in our view the DCO is in the best position to maintain data on the post-clearing “beta” and “gamma” swaps. A DCO is party to every swap it clears and maintains comprehensive “golden source” data on such swaps for regulatory and risk management purposes, among others. Swap data reporting would be greatly simplified if DCOs were responsible for maintaining SDR data for cleared swaps, rather than redundantly reporting it to a third party SDR (and subsequently updating and reconciling records with such SDR). Data aggregation would also be simplified for regulators, who could look to DCOs for SDR data on cleared swaps and to a separate SDR for data on uncleared swaps.

## III. Increasing the Utility of Real-time Public Reporting

We also agree with the Roadmap’s proposal to assess the Commission’s real-time public reporting regulations based on the goals of “liquidity, transparency, and price discovery.” Market research demonstrates that the introduction of real-time public reporting in the swaps market has led to meaningful benefits for end investors, removing information asymmetries and facilitating more accurate assessments of execution quality.<sup>3</sup>

However, there are ways to further refine and enhance the framework, such as by streamlining the data fields that are publicly reported. Unnecessary fields should be removed while certain

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<sup>2</sup> See CPMI-IOSCO Harmonisation of critical OTC derivatives data elements (other than UTI and UPI) – third batch (June 2017), available at: <http://www.bis.org/cpmi/publ/d160.pdf>.

<sup>3</sup> See, e.g., Loon, Y. C., Zhong, Z. K., 2014. The impact of central clearing on counterparty risk, liquidity, and trading: Evidence from the credit default swap market. *Journal of Financial Economics* 112 (1), 91-115; Loon, Y. C., Zhong, Z. K., 2015. Does Dodd-Frank affect OTC transaction costs and liquidity? Evidence from real-time CDS trade reports, *Journal of Financial Economics*.

select fields that would improve market transparency, such as the relevant DCO on a cleared swap, should be considered for inclusion.

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

Respectfully,

/s/ Stephen John Berger

Managing Director, Government & Regulatory Policy