17 CFR Part 43

July 29, 2024

Chair Rostin Behnam
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Commissioner Kristin Johnson
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Commissioner Christy Goldsmith Romero
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Commissioner Summer Mersinger
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Commissioner Caroline Pham
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

CC: Vincent McGonagle
Division of Market Oversight
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: Request to Engage the CFTC on the Methodology for Developing Block Thresholds and Cap Sizes

Dear Chairman and Commissioners:

The International Swaps and Derivatives Association, Inc. (**"ISDA"**), the Securities Industry and Financial Markets Association (**"SIFMA"**), the American Council of Life Insurers (**"ACLI"**), the Asset Management Group of the Securities Industry and Financial Markets Association (**"SIFMA AMG"**), and the Investment Company Institute (**"ICI"**) (together, **"the Associations"**) strongly support Letter No. 24-06 published by the Division of Market Oversight (**"DMO"**) of the U.S. Commodity Futures Trading Commission (**"Commission"**). We appreciate that DMO has published revised block thresholds and cap sizes based on the current data and has provided additional time for compliance with the new thresholds. This is an important first step in ensuring that block thresholds and cap sizes applicable to particular asset classes accurately reflect trading activity in those specific markets.

We are looking forward to a continued dialogue about the outstanding issues involving threshold calculations. While some of the forthcoming block thresholds are more appropriately set, we are still concerned about the calculation methodology contained in the Commission's real time reporting rules. We believe the methodology used by the Commission may incorrectly capture certain swap categories. As such, we suggest that the Commission provide a public forum to publicly assess and reassess the methodology and calculation techniques.

We are encouraged by Chairman Behnam's comments at ISDA's Annual General Meeting in Tokyo in April, where he emphasized the importance of calculating appropriate thresholds. In addition, we appreciate the work of both the CFTC Global Market Advisory Committee and the CFTC Market Risk Advisory Committee on this important topic. Both Committees highlighted the need to calibrate the thresholds for current market conditions.

In addition, the Commission should provide more clarity regarding how certain types of reported transactions and classifications of transactions are treated under Part 43 of the Commission's regulations.

One area that needs further attention is the inclusion of both non-cleared and MAT swaps in one bucket for the purpose of Part 43 real time reporting requirements. Such inclusion conflicts with the SEF trade execution requirement for MAT trades (namely the RFQ-to-3 requirement). Non-cleared transactions, although not required to be executed on a SEF, increase the block thresholds for MAT trades that must be executed on a SEF via RFQ-3. Including non-cleared and MAT swaps in one bucket undermines SEF trading and frustrates the goal of the Dodd-Frank Act to promote trading on SEFs.[1]

Calculating thresholds applicable to MAT trades separately from non-cleared trades would result in thresholds that are more reflective of the relevant level of liquidity and risk sensitivity in those asset classes and, at the same time, would allow for uninterrupted trading of MAT transactions on a SEF. This would alleviate concerns regarding the "winner's curse"[2] and more appropriately balance the goal of enhanced price transparency with the potential for a significant negative impact on market liquidity and pricing caused by requiring extremely large transactions (that are comprised of non-MAT swaps) to be traded on a SEF.

Separately, as you are aware, European regulators are now considering whether their trading requirements are still reflective of the trading liquidity in their markets. If not addressed, misaligned SEF trading will undermine U.S. trading competitiveness.

To address these issues and other ambiguities, we recommend that the Commission provide a forum for publicly assessing and reassessing the methodology and readjusting the calculation

---

[1] CEA Sec. 5h(e). The goal of this section is to promote the trading of swaps on swap execution facilities and to promote pre-trade price transparency in the swaps market.

[2] *See* ISDA Letter on Proposed Block and Cap Thresholds (May 2020), https://www.isda.org/2020/05/22/isda-response-to-cftc-block-and-cap-threshold-proposal/

techniques, if necessary. It is important for the Commission to be transparent about the process for determining the appropriate block sizes instead of simply publishing final numbers. We believe that both the Commission and market participants would benefit from establishing a process within the Commission to allow market participants to provide feedback on the methodology for the calculation of thresholds.

We suggest that DMO work with the Associations and other market participants to review the methodology used to determine block thresholds and cap sizes and develop recommendations for presentation, discussion, and comment in an open public forum.

As noted above, establishing appropriate block sizes will greatly improve derivatives trading and make U.S. markets more competitive with Europe and other regions.

We hope that the Commission will consider our recommendation, as it reflects the extensive knowledge and experience of trading professionals within our membership.

We look forward to a continued engagement on this topic.

Sincerely,

Kyle Brandon
Managing Director, Head of Derivatives Policy
SIFMA

Steven Kennedy
Global Head of Public Policy
ISDA

Eric J. Pan
President and CEO
Investment Company Institute

William C. Thum
Managing Director and Associate General Counsel
SIFMA AMG

Madison Ward
Counsel
ACLI

Appendix: About the Associations

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 76 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on Twitter, LinkedIn, Facebook and YouTube.

SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's one million employees, we advocate on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. Ninety million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States. Life insurers are significant end-users of derivatives for prudential asset-liability management. Life insurers use derivatives to prudently manage the credit and market risk of their portfolios and to fulfill their long-dated obligations to policy and contract owners.

SIFMA AMG brings the asset management community together to provide views on U.S. and global policy and to create industry best practices. SIFMA AMG's members represent U.S. and global asset management firms whose combined assets under management exceed $45 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds.

The Investment Company Institute (ICI) is the leading association representing the asset management industry in service of individual investors. ICI's members include mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and UCITS and similar funds offered to investors in other jurisdictions. Its members manage $35.2 trillion invested in funds registered under the US Investment Company Act of 1940, serving more than 100 million investors. Members manage an additional $9.4 trillion in regulated fund assets managed outside the United States. ICI also represents its members in their capacity as investment advisers to certain collective investment trusts (CITs) and retail separately managed accounts (SMAs). ICI has offices in Washington DC, Brussels, and London and carries out its international work through ICI Global.