

February 25, 2011

Mr. David A. Stawick
Secretary to the Commission
Commodity Futures Trading Commission
1155 21st Street NW
Washington, DC 20581

and

Ms. Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

Re: CanDeal Response to Commodity Futures Trading Commission's ("CTFC") Request for Comments on Proposed Rules regarding Core Principles and Other Requirements for Swap Execution Facilities, dated January 7, 2011.

Dear Mr. Stawick and Ms. Murphy:

Introduction

CanDeal is Canada's leading online marketplace for Canadian dollar debt securities (www.candeal.ca). CanDeal's Institutional Dealer-to-Client Request For Quote ("RFQ") marketplace provides online access to the largest pool of liquidity for Canadian government bonds and money market instruments. Through our partnership with Tradeweb LLC, CanDeal's products are also available to institutional investors in the United States and Europe. CanDeal is fully registered as an investment dealer with the Investment Industry Regulatory Organization of Canada ("IIROC") and regulated by the Canadian Securities Administrators as an Alternative Trading System ("ATS"). CanDeal was launched in 2001 with the mandate to build and operate successful electronic marketplaces that promote market integrity and efficiency, heighten industry practices for risk management, procedural compliance, oversight and control, and to exceed the regulatory, operating, and investment needs of market participants. CanDeal's operating mission is consistent with, and supportive of, G20 mandates and the Dodd-Frank Act's goals of increased regulation and transparency in the swap and commodities markets. CanDeal intends on complying with US SEF requirements and, as Canadian swap market regulations evolve, CanDeal will also comply with those requirements.

Although the Dodd-Frank Act is, by design, structured to address needs within the U.S. market, the G20 mandates behind this initiative have been broadly adopted and are being addressed by other member countries, including Canada.

CanDeal appreciates the opportunity to respond to the request for comment from the CFTC and the SEC. CanDeal believes that it offers a uniquely non-U.S. domestic perspective on these rules and their potential impact on U.S. domiciled participants.

Application of rules to foreign (non-US dollar) denominated swaps

Interest Rate Swap (“IRS”) markets denominated in different currencies have unique characteristics defined by their market size, intrinsic liquidity, number of participants and the financial wherewithal of participants. As U.S. regulators finalize marketplace rules, consideration should be given to how these rules would be applied to US domestic participants’ trading in non-domestic (non-U.S. dollar) derivative products.

There are many examples where the proposed rules may have unintended consequences on domestic trading of non-domestic IRS products. Two examples which highlight these concerns are the calculation of Block Trades and certain SEF Trading Protocols.

Block Trade Determination

The determination of Block Trade status based on the distribution test and the social size test should be calculated separately by security and currency. Considering the size and liquidity characteristics of the US\$ IRS market, it would be inappropriate to apply a US\$ IRS calculation of Block Trade size to CAD\$ IRS trades where the equivalent distribution and social size tests applied locally would result in a smaller block size.

SEF Trade Protocol: 5 Dealer Minimum

The proposed RFQ trade protocol requires price-takers to solicit quotes from a minimum of five market participants. Consideration should be given to the impact on the buy-side of applying this rule, where it could become unnecessarily burdensome and punitive to market participants. There are risks associated with limiting a participants’ right to choose, in that it discloses their trading strategies to an unsuitably broad audience relative to the market size. This requirement would also increase market risks to price-makers and their capital. This would disadvantage both parties and reduce the efficiency and liquidity of the affected markets. The negative impact of this rule is magnified when considering less liquid, smaller market circumstances.

Aside from the liquidity/optimal pricing issues generated from the “5-dealer rule”, this rule may also inadvertently exclude participants from the market. One of the most important characteristics of IRS transactions, which differentiate them from other financial transactions, is that the financial obligations of the counterparties do not expire at trade settlement. This introduces the issues of legal documentation, risk management, and market infrastructure; and creates the opportunity for asymmetries across markets, regulatory jurisdictions and market participants.

Most market participants do not approve trading of derivatives with a large number of counterparties. The process of negotiating and executing legal agreements with counterparties consumes significant time and resources for both parties, and there is a risk that an agreement can never be reached; consequently, many participants will limit the counterparty approvals process to a select few entities. In some cases, particularly when trading smaller-market IRS products, participants do not have legal documentation in place with a minimum of five parties. The “5-dealer rule” may unintentionally create a barrier to entry into certain markets.

Concerns related to regulatory arbitrage

While the Canadian, European and other G20 member initiatives regarding derivatives reform are also beginning to take shape, the process of tabling reform in the U.S. is significantly completed. Given that each jurisdiction’s rules will reflect the domestic market’s characteristics, it is likely that asymmetries in rulemaking will exist. To what extent has there been flexibility built into proposed rules to address potential misalignment of regulations across borders? CanDeal believes that this is an important issue for U.S. regulators, as any misalignment may result in regulatory arbitrage as trade activity will be driven by either the burden or suitability of local rules. The following examples may help illustrate this point.

A U.S. domiciled institutional investor or Swap Dealer that is active in IRS markets may choose to execute their business in a regulatory jurisdiction that is more conducive to a given product. In the case of entities with global offices, this could be done at little or no cost. Consequently, there would be a reduction in domestic trade flow with fewer trades being reported into a local Swap Data Repository.

Buy-side clients may begin selecting the products they trade, and the dealers they trade with, based in part on regional regulatory constraints rather than the strict financial merits of the instrument traded.

Finally, a domestic U.S. participant that is restricted to deal, for example, in a CAD\$ IRS under circumstances that are not conducive to that product, would be disadvantaged to participants that are not subject to the same regulatory constraint.

As a potential solution to these issues, CanDeal proposes the creation of a new mezzanine-level regulatory body in each of the G20 countries that would act as a Designated Market Authority ("DMA") responsible for determining and enforcing appropriate market policy and trading standards for each product in their local jurisdiction. Price-makers would register with the DMA for each product and report to the DMA. By placing the regulatory authority closer to the local market, regulators can be more responsive to the fluid elements of their markets; in particular, market liquidity, which is particularly dynamic and impacting in small market environments.

We thank the SEC and CFTC for the opportunity to provide a perspective on this evolving set of rules and welcome any invitation to continue these discussions.

Yours sincerely



Aubrey Baillie, CFO & CCO
CANDEAL.CA INC