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Christopher Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre, 1155 21st Street, NW
Washington, DC 20581

**Re: CFTC Proposed Amendments to the Real-Time Public Reporting Requirements**

Dear Mr. Kirkpatrick,

I appreciate the opportunity to comment on CFTC's proposed amendment to the real-time public reporting requirement. I have served as a CFTC academic expert from 2016 to 2019, as well as an academic expert for the BIS from 2018 to 2019. As an academic researcher, I have published numerous articles on market structure, including derivatives markets, over the past ten years. One of my recent publications is in collaboration with CFTC economists on SEF trading mechanisms.[1]

In its proposed rule, the CFTC states: "The Commission proposes to remove current §§ 43.5(c)-(h) and add a new § 43.5(c) that requires SDRs to implement a time delay of 48 hours for disseminating STAPD [swap transaction and pricing data] for each applicable swap transaction with a notional or principal amount above the corresponding AMBS [appropriate minimum block size], if the parties to the swap have elected block treatment."

The 48-hour delay is a major change in transaction reporting and requires careful deliberation. Chairman Tarbert wrote in his statement: "One of the issues we are looking at closely is whether a 48-hour delay for block trade reporting is appropriate." Commissioner Behnam's statement also encourages inputs on the 48-hour delay proposal. Commissioner Berkovitz has expressed concerns that the 48-hour delay is too long and could impede price discovery.

I believe the proposed 48-hour delay on the reporting of block transactions will have a negative impact on the transparency and liquidity of swaps markets. It is better to use size caps to achieve the same objective behind the 48-hour delay proposal.

The predominant conclusion from academic research is that post-trade transparency provides investors with valuable price information and reduces transaction costs. For example, in CDS markets, Loon and Zhong (2014) conclude that "Liquidity improves after the commencement of public dissemination of OTC derivatives trades. Moreover, cleared trades, trades executed on exchange-like venues, end-user trades, and bespoke trades exhibit lower trading costs, price

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[1] See Riggs, Onur, Reiffen, and Zhu (2019), "Swap Trading after Dodd-Frank: Evidence from Index CDS."

impact, and price dispersion." Evidence from corporate bond markets, which went through the post-trade transparency transition in the early 2000s, is similar: post-trade transparency reduces transaction costs.[2]

There are valid concerns about disclosing <u>all details</u> of a block transaction in real time. If the actual size of the transaction is disclosed to the market, a liquidity provider who acquired the block would have a difficult time offloading the risk without paying a premium, which may, in turn, discourage liquidity providers from acquiring the position in the first place. This rationale, which I refer to as "<u>block overhang</u>," is explicitly discussed in the CFTC's proposed rule.

The block overhang problem is primarily about the size of the trade, not its price. A more appropriate way to address the block overhang concern is to <u>put a cap on the disclosed size of the block trade, while maintaining the (near) real-time reporting of the price</u>. For example, if the cap is determined to be, say, 50MM for an instrument, then any trade with notional greater than that would be reported as 50MM+, rather than its actual size. If needed, the reporting size cap could be calibrated conservatively (i.e., small) so that the actual size of the transaction cannot be guessed with accuracy. When a liquidity provider who acquired a block seeks to offload part of the position, the counterparty would not know for sure whether more is coming. This should greatly reduce the block overhang problem, while minimizing the disruption to price discovery. The actual size may be eventually disclosed with a delay, such as 48 hours.

The following table spells out the pros and cons of the three arrangements, using a hypothetical example of an interest rate swap:

| Reporting regime | Example | Impact |
|---|---|---|
| Real-time reporting of price and size | Swap rate 1.5%, size 150MM, 10:00am today | Real-time price discovery, large block overhang risk |
| 48-hour delayed reporting of price and size | Swap rate 1.5%, size 150MM, 10:00am two days ago | Stale information |
| Real-time reporting of price and capped size | Swap rate 1.5%, size 50MM+, 10:00 am today | Real-time price discovery, small block overhang risk |

Size caps are not unusual. The current CFTC reporting requirements already include the use of size caps for sufficiently large trades. Transaction reporting in corporate bonds and municipal bonds has also used size caps from the very beginning. A more active use of the size caps, in combination of real-time or near-real-time reporting of the price, would further simply and streamline the reporting requirements of swaps trades by focusing attention on one dimension (size cap) rather than two (size cap and delay).

The size cap (for the purpose of trade reporting) and the block threshold (for the purpose of determining if a swap must be traded on SEF) may be the same or different. Operational simplicity may favor the same size. But because the two thresholds apply at different stages of

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[2] Bessembinder, Maxwell, and Venkataraman (2006), Edwards, Harris, and Piwowar (2007), and Goldstein, Hotchkiss, and Sirri (2007) all show that the introduction of TRACE (trade reporting and compliance engine) reduced transaction costs.

the trading process (post-trade disclosure versus pre-trade order exposure), I believe the two size thresholds should be calibrated separately. For example, SEF execution requires the order to be exposed to at least three liquidity providers (RFQ-to-three), whereas post-trade reporting shows the trade to the entire market. The latter implies a more severe block overhang problem. Thus, it is reasonable to apply a smaller trade-reporting size cap than the block threshold for SEF execution.

In sum, delaying the trade report of block transactions by 48 hours undermines the very purpose of post-trade transparency. To address the concern of block overhang, capping the reported size of the block transaction is a better middle ground.

Sincerely,

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