

(FISMA)

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**From:** [REDACTED] (MARKT)  
**Sent:** 23 May 2013 10:55  
**To:** MARKT LIST G3  
**Subject:** MiFID/R meeting with Thomson Reuters

On Wednesday, May 22<sup>nd</sup>, Maite, [REDACTED] and [REDACTED] met with [REDACTED] and [REDACTED] of FXall. FXall is a US based trading venue for foreign exchange derivatives. It has recently been acquired by Thomson Reuters, and is in the process of being integrated with their MTF. This is the largest platform in the world for FX trading.

With regard to the recently adopted CFTC rules, they note that some of the changes compared to the initial version had already been leaked by the CFTC staff.

Notably, the requirement for a request for quote to be sent to at least five persons, has been changed to two persons initially, and to three after a year of operation.

They were surprised by the change to the scope of the definition of a SEF. Dodd-Frank has introduced a broad definition of swaps. Initially, a multilateral venue trading only spot or forward contracts or options would not need to qualify as a SEF (even though such contracts are swaps under Dodd-Frank).

Single dealer platforms, on which the dealer is the counterparty to every trade (SI's in EU terms) are not caught under the SEF definition, but are only allowed to trade non-clearable swaps.

Under the adopted rule, any multilateral platform trading swaps (both clearable and non-clearable) has to register as a SEF. However, for non-clearable swaps (including non-deliverable forwards and options) the SEF would not have to follow the request for quote or central limit order book trading requirements. Options are expected to become clearable in about 18 months' time, while clearers figure out a model for handling them.

Hence, while in the EU instruments subject to mandatory venue trading are a subset of financial instruments which are subject to mandatory clearing, in the US this is the other way round.

Under the US system, a venue needs to register a contract for clearing and trading with the CFTC which then approves it. However, if no submission is made, the CFTC has no formal power to mandate such registration.

Geographical masking they believed related to the ability to restrict post trade transparency where one of the counterparties was located in a third country where disclosure was not permitted.

With regard to block trades, the CFTC sizes for SEF's will be reconsidered after one year of operation. Under the SEC rules, DCM's can set their own sizes. This could lead to a race to the bottom in terms of block sizes.

SEF members can transact blocks off facility, but after execution are required to report block trades to a SEF (or DCM). The SEF is responsible for checking whether the conditions for block trades have been met. When no block size is set for a swap, it is implied to be zero so all transactions are allowed to be negotiated off facility.

The rules which determine the corporate governance structure of SEF's have not yet been voted on. This includes the proposed requirement under which dealers would not be allowed to own a SEF. Thomson Reuters expect this rule will be passed at some time in the future.

They are concerned about the recognition of a foreign SEF when MiFID II is in application. If US SEF's would not be recognised as equivalent under MiFID II, there is risk of fragmented liquidity pools.

Currently, EU persons can trade on US SEF's provide they meet the US definition of an eligible contract participant (which is not the same as an eligible counterparty under EU law).

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