



March 24, 2011

The Hon. Mary L. Schapiro
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Dear Chairman Schapiro,

Managed Funds Association wants to thank you, the Commission and its staff for your efforts to implement key OTC derivatives market reforms related to the Dodd-Frank Act. As investors that manage assets for thousands of institutions and longstanding OTC derivatives customers, we have advocated for reform of the OTC derivatives markets throughout the legislative and regulatory processes. In this spirit, we are writing to you to provide our recommendations for facilitating prompt implementation of Title VII reforms and move closer to our shared goal of reduced systemic risk and enhanced efficiency.

Although we have concerns with the overall implementation process, we want to emphasize that our objective is not to ask you to slow down implementation of these reforms. On the contrary, we believe it is possible to modify the process and move expeditiously. We believe that by properly ordering priorities, establishing a series of defined milestones and implementing reforms in a practical manner that focuses on the ultimate goal (*i.e.*, reducing the risk to the global financial system), the OTC derivatives market could achieve substantial progress towards key regulatory reforms, including central clearing, sooner rather than later.

The reform process currently underway runs the risk of stalling because many of the proposed regulations are too focused on achieving 100% reform, and because there is no clear blueprint of interim milestones for industry participants to meet the key reform objectives. Let's start working on things that can be achieved now, in 2011. With the infrastructure and industry efforts in place, we are certain there is a way forward that is consistent with broad, timely implementation of the Dodd-Frank Act.

To that end, we believe the first two priorities should be: (i) expanding the use of central clearing for liquid ("clearable") contracts; and (ii) having trade repositories receive data on both cleared and bilateral swaps. These changes would provide substantial benefits to the markets by enhancing price transparency and competition for the most liquid swap transactions. In addition, reforms, such as broad industry clearing and trade repository data, will lay the groundwork for future reforms (*e.g.*, electronic trading and trade transparency) that will provide regulators the data they need (*e.g.*, regarding liquidity and pricing) to promulgate effective rules, oversee the markets and monitor for market risks.

What steps are necessary to implement key reform objectives, including central clearing?
Attached to this letter are two documents that serve as a roadmap.

The first is the “Framework for the Open Items List from Buy-Side Participants of Actions Required for Buy-Side Access to Clearing”, which was sent to all regulators, including the Commission, in March of 2010 as part of the New York Fed-sponsored ISDA Industry Governance Committee (“IIGC”) process. This document provides a list of key impediments to buy-side clearing. Sadly, in our opinion, with the exception of item #4, little or no progress has been made on these commitments over the past year. The IIGC working group, which achieved notable progress several years ago in standardizing contracts and trade compression, stopped functioning effectively and was not held accountable for achieving the goals stated in the letter. As we hope to have made clear to you in our meeting, we are prepared to reengage, whether through the IIGC process or a new set of industry and regulatory initiatives, to restart progress. Indeed, we have submitted comments to IIGC in the hope of agreeing on a new commitment letter.

The second is a summary of MFA’s recommended timeline for adoption and implementation of all rules related to OTC derivatives reform as well as a timeline that articulates clear, practical, measurable milestones for all stakeholders to move clearing forward decisively. Our approach is to establish milestones for clearing access and voluntary clearing with a phase-in period before clearing becomes mandatory. We recommend regular meetings that include buy-side firms, sell-side firms, clearinghouses and regulators to ensure that timely progress is being made.

Most of our members are ready, willing and able to clear both current and future “clearable” swaps once certain basic impediments are addressed. However, as described in the first attachment, there are currently substantial structural and economic barriers to full buy-side participation in central clearing. If implemented effectively, recently proposed Dodd-Frank rulemakings promise to address many of these barriers. In addition, if all parties work together, we believe that within a matter of months, voluntary clearing by buy-sides firms could expand substantially in both the broad-based index credit default swaps (“CDS”) and interest rate markets. With that beginning, we believe that clearing of single-name CDS that are index constituents would follow shortly thereafter and other single names would follow subsequently. During the voluntary phase, progressively higher targets for all buy-side firms could be met as traditional asset managers and other end-users resolve their unique implementation issues, and over time, all remaining assets classes could also move towards increased central clearing.

We look forward to working with the Commission and other industry participants.

Sincerely,

/s/ Richard H. Baker

Richard H. Baker
President & Chief Executive Officer

Attachments (2)