

CFTC's Mandatory Exchange Trading for Certain Interest Rate Swaps Starts February 15, 2014

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On January 16, 2014, staff of the Commodity Futures Trading Commission's (CFTC) Division of Market Oversight (Division) announced that the first "made-available-to-trade" determination (MAT Determination) will become effective on February 15, 2014. This means that as of February 15, 2014,¹ certain types of fixed-for-floating interest rate swaps (detailed below) must be executed on a swap execution facility (SEF) or a designated contract market (DCM), unless an exception applies (e.g., the end-user exception).²

The Division's press release indicates that an interest rate swap subject to the MAT Determination must be executed on a SEF or DCM even if the swap is part of a "package trade" or a single leg of a multi-leg trade.³ A statement of dissent from CFTC Commissioner O'Malia suggests that the CFTC's Office of Chief Economist estimates that package transactions comprise almost 50 percent of the notional volume of the rates market.⁴ Acting Chairman Wetjen has directed the Division to hold a public roundtable on issues related to package transactions, including whether to grant limited relief for package transactions from the MAT Determination.

An interest rate swap is subject to the MAT Determination if it satisfies each of the criteria in any column of the chart below:

Fixed-to-Floating Interest Rate Swap			
1. Currency	U.S. Dollar	U.S. Dollar	Euro
2. Floating Rate Indexes	USD Libor	USD Libor	EURIBOR
3. Trade Start	Spot Starting (T+2)	IMM Start Date	Spot Starting (T+2)
4. Optionality	No	No	No
5. Dual Currencies	No	No	No
6. Notional	Fixed	Fixed	Fixed
7. Tenors	Any one of: 2 yrs. 3 yrs. 5 yrs. 7 yrs. 10 yrs. 12 yrs. 15 yrs. 20 yrs. 30 yrs.	Any one of: 2 yrs. 3 yrs. 5 yrs. 7 yrs. 10 yrs. 12 yrs. 15 yrs. 20 yrs. 30 yrs.	Any one of: 2 yrs. 3 yrs. 5 yrs. 7 yrs. 10 yrs. — 15 yrs. 20 yrs. 30 yrs.

END NOTES

- 1 See "The Commodity Futures Trading Commission Staff Announces Trade Execution Mandate for Certain Interest Rate Swaps," *available at*: <http://www.cftc.gov/PressRoom/PressReleases/pr6831-14>.
- 2 February 15, 2014 falls on a Saturday. February 18, 2014, is the first business day after the effective date of the MAT Determination.
- 3 A "package trade" is a trade that combines a swap that is subject to the MAT Determination and another instrument, whether it is a swap, futures contract or cash market transaction. Many questions have been raised about whether the market for package trades will be able to continue if the CFTC's MAT Determination requires one component of the "package trade" to be executed on a SEF or DCM while the other component is not.
- 4 See "Statement of Commissioner Scott D. O'Malia on Made Available-to-Trade Determination," *available at*: <http://www.cftc.gov/PressRoom/SpeechesTestimony/omaliastatement011614>.