MEMO# 29986

June 16, 2016

CFTC Proposes Additional Interest Rate Swaps for Clearing Requirement

[29986]

June 16, 2016

TO:

CLOSED-END INVESTMENT COMPANY MEMBERS No. 8-16
DERIVATIVES MARKETS ADVISORY COMMITTEE No. 31-16
INVESTMENT ADVISER MEMBERS No. 11-16
SEC RULES MEMBERS No. 26-16

RE:

CFTC PROPOSES ADDITIONAL INTEREST RATE SWAPS FOR CLEARING REQUIREMENT

The Commodity Futures Trading Commission ("CFTC") recently proposed to expand the scope of interest rate swaps subject to the clearing mandate. [1] CFTC rules currently require clearing of certain interest rates swaps denominated in U.S. dollars, Japanese yen, British pounds, and euro. [2] The proposed rule would extend the clearing mandate to include interest rate swaps denominated in additional currencies. The Appendix to this memorandum provides the specifications for the interest rate swaps that would be subject to a CFTC clearing mandate if the CFTC adopts this proposal. The CFTC believes its proposed rule would harmonize the U.S. clearing requirement with clearing requirements—both finalized and proposed—for interest rate swaps in other jurisdictions. [3]

Recognizing that multiple non-U.S. jurisdictions have taken steps to promulgate analogous clearing requirements for the interest rate swaps covered by the rule, the CFTC proposes two alternate implementation schedules to create a workable implementation timeframe for the proposed requirements:

- Option 1: A final rule implementing the new clearing requirements for all products at the same time. Compliance with the rule would be required 60 days after the CFTC's final rule is published in the Federal Register.

- Option 2: The compliance date for the new clearing requirements would be the earlier of (1) the date 60 days after the effective date of an analogous clearing requirement that has been adopted by a regulator in a non-U.S. jurisdiction, provided that any such date for any swap covered by the final rule shall not be earlier than the date which is 60 days after the CFTC’s final rule is published in the Federal Register, or (2) the date two years after the CFTC’s final rule is published in the Federal Register.

The comment period for this proposal closes July 18, 2016. ICI does not expect to comment on the proposal. If you have any concerns with the proposal, please contact Jennifer Choi at jennifer.choi@ici.org or (202) 326-5876 or George Gilbert at george.gilbert@ici.org or (202) 326-5810 no later than June 24.

Jennifer S. Choi
Associate General Counsel

George M. Gilbert
Counsel

Appendix [4]

Table 1: Fixed-to-Floating Swap Class

Currency

Floating Rate Indexes

Stated Termination Date Range

Optionality

Dual Currencies

Conditional Notional Amounts

AUD

BBSW

28 days to 30 years

No

No

No

CAD

CDOR

28 days to 30 years

No

No

No

HKD

HIBOR

28 days to 10 years

No

No

No

MXN

TIIE

28 days to 21 years

No

No

No

NOK

NIBOR

28 days to 10 years

No

No

No

PLN

WIBOR

28 days to 10 years

No

No

No

SGD

SOR-VWAP

28 days to 10 years

No

No

No

SEK

STIBOR

28 days to 15 years

No

No

No

CHF

LIBOR

28 days to 30 years

No

No

No

GBP

LIBOR

28 days to 50 years

No

No

No

USD

LIBOR

28 days to 50 years

No

No

No

JPY

LIBOR

28 days to 30 years

No

No

No

EUR

EURIBOR

28 days to 50 years

No

No

No

Table 2: Basis Swap Class

Currency

Floating Rate Indexes

Stated Termination Date Range

Optionality

Dual Currencies

Conditional Notional Amounts

AUD

BBSW

28 days to 30 years

No

No

No

EUR

EURIBOR

28 days to 50 years

No

No

No

GBP

LIBOR

28 days to 50 years

No

No

No

USD

LIBOR

28 days to 50 years

No

No

No

JPY

LIBOR

28 days to 30 years

No

No

No

Table 3: Forward Rate Agreement Class

Currency

Floating Rate Indexes

Stated Termination Date Range

Optionality

Dual Currencies

Conditional Notional Amounts

AUD

BBSW

3 days to 3 years

No

No

No

PLN

WIBOR

3 days to 2 years

No

No

No

NOK

NIBOR

3 days to 2 years

No

No

No

SEK

STIBOR

3 days to 3 years

No

No

No

GBP

LIBOR

3 days to 3 years

No

No

No

USD

LIBOR

3 days to 3 years

No

No

No

JPY

LIBOR

3 days to 3 years

No

No

No

EUR

EURIBOR

3 days to 3 years

No

No

No

Table 4: Overnight Index Swap Class

Currency

Floating Rate Indexes

Stated Termination Date Range

Optionality

Dual Currencies

Conditional Notional Amounts

AUD

AONIA-OIS

7 days to 2 years

No

No

No

CAD

CORRA-OIS

7 days to 2 years

No

No

No

EUR

EONIA

7 days to 3 years [5]

No

No

No

GBP

SONIA

7 days to 3 years [6]

No

No

No

USD

FedFunds

7 days to 3 years [7]

No

No

No

endnotes

[1] Clearing Requirement Determination under Section 2(h) of the CEA for Interest Rate Swaps, 81 Fed. Reg. 39,506 (Jun. 16, 2016), available at https://www.gpo.gov/fdsys/pkg/FR-2016-06-16/pdf/2016-14035.pdf.

[2] The requirement applies to interest rate swaps of various tenors belonging to the following classes: (1) fixed-to-floating swaps; (2) basis swaps; (3) overnight index swaps; and (4) forward rate agreements. For more detail about that requirement, please see Investment Company Institute Memorandum No. 26741 (Dec. 6, 2012), available at https://www.ici.org/ my_ici/memorandum/memo26741. CFTC rules also require clearing of certain credit default swaps. See id.

[3] Those jurisdictions are: (1) Australia; (2) Canada; (3) European Union; (4) Hong Kong; (5) Mexico; (6) Singapore; and (7) Switzerland

[4] Items underlined indicate changes or additions under the proposal.

[5] The CFTC’s current mandate applies to transactions with tenor from 7 days to 2 years.

[6] The CFTC’s current mandate applies to transactions with tenor from 7 days to 2 years.

[7] The CFTC’s current mandate applies to transactions with tenor from 7 days to 2 years.
