



## U.S. COMMODITY FUTURES TRADING COMMISSION

Three Lafayette Centre  
1155 21st Street, NW, Washington, DC 20581  
Telephone: (202) 418-5000  
Facsimile: (202) 418-5521  
[www.cftc.gov](http://www.cftc.gov)

### Division of Clearing and Risk

CFTC Letter No. 17-58  
No-Action  
November 7, 2017  
Division of Clearing and Risk

Edward Ivey  
Linklaters LLP  
1385 Avenue of the Americas  
New York, NY 10105

Re: No-Action Relief for the European Stability Mechanism from the Swap Clearing Requirement in Section 2(h)(1) of the Commodity Exchange Act and Commodity Futures Trading Commission Regulations 50.2 and 50.4

Dear Mr. Ivey:

On July 10, 2017, you sent a letter on behalf of the European Stability Mechanism (“ESM”) (“Request Letter”), to the Division of Clearing and Risk (“Division”) of the Commodity Futures Trading Commission (“Commission”) requesting relief from the swap clearing requirement of section 2(h)(1) of the Commodity Exchange Act (“CEA”) (“Clearing Requirement”). Based on the facts described in the Request Letter, the Division has decided to not recommend that the Commission take enforcement action against ESM for failure to comply with the Clearing Requirement as implemented by Commission regulations 50.2 and 50.4.<sup>1</sup> The Division believes that granting this no-action relief to ESM would be consistent with the final Federal Register release adopting the end-user exception to the Clearing Requirement (“End-User Exception”),<sup>2</sup> in which the Commission determined that foreign governments, foreign central banks, and certain international financial institutions should not be subject to the Clearing Requirement.<sup>3</sup>

---

<sup>1</sup> Clearing Requirement Determination Under Section 2(h) of the CEA, 77 Fed. Reg. 74,284 (Dec. 13, 2012) and Clearing Requirement Determination Under Section 2(h) of the CEA for Interest Rate Swaps, 81 Fed. Reg. 71,202 (Oct. 14, 2016) (collectively, “Clearing Requirement Determination”).

<sup>2</sup> End-User Exception to the Clearing Requirement for Swaps, 77 Fed. Reg. 42,560 (July 19, 2012) (“End-User Exception”).

<sup>3</sup> End-User Exception, 77 Fed. Reg. at 42,561-42,562.

### Applicable Regulatory Requirements

Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank Act”)<sup>4</sup> amended the CEA by adding section 2(h), which establishes the Clearing Requirement. Under section 2(h)(1)(A) of the CEA and Commission regulation 50.2, it is unlawful for a person to engage in a swap that is required to be cleared by the Commission unless the swap is submitted for clearing to an eligible derivatives clearing organization. The Commission has determined that two classes of credit default swaps and four classes of interest rate swaps are required to be cleared.<sup>5</sup> However, pursuant to the End-User Exception, certain non-financial entities may enter into non-cleared swaps that would otherwise be subject to the Clearing Requirement to hedge or mitigate commercial risks associated with their underlying businesses, such as energy exploration, manufacturing, farming, transportation, or other commercial activities.<sup>6</sup> In addition, in the final Federal Register release adopting the End-User Exception, the Commission concluded that based on considerations of public policy and international comity, certain international financial institutions, as well as foreign governments and foreign central banks, “should not be subject to” the Clearing Requirement.<sup>7</sup>

The Commission provided the following reasons for its conclusion that foreign governments, foreign central banks, and international financial institutions should not be subject to the Clearing Requirement. First, because many international financial institutions operate with the benefit of certain privileges and immunities under U.S. law, they may be treated similarly in other contexts under certain circumstances. Second, the Commission noted that there is nothing in the text or history of the swap-related provisions of the Dodd-Frank Act to establish that Congress intended to deviate from the traditions of the international system by subjecting foreign governments, foreign central banks, or international financial institutions to the Clearing Requirement. Third, the Commission stated that it expects that if the U.S. government, a Federal Reserve Bank, or any international financial institution of which the U.S. is a member were to engage in swap transactions in foreign jurisdictions, then the actions of that entity with respect to those transactions would not be subject to foreign regulation.<sup>8</sup>

---

<sup>4</sup> Pub. L. 111-203, 124 Stat. 1376 (2010).

<sup>5</sup> Clearing Requirement Determination.

<sup>6</sup> End-User Exception and Commission regulation 50.50.

<sup>7</sup> End-User Exception, at 42,562.

<sup>8</sup> *Id.* For the purposes of the final release adopting the End-User Exception, the Commission considered international financial institutions as those institutions that are defined as “international financial institutions” in 22 U.S.C. 262r(c)(2)(Annual Report by Chairman of National Advisory Council on International Monetary and Financial Policies) and those institutions defined as “multilateral development banks” in the Proposal for the Regulation of the European Parliament and of the Council on OTC Derivative Transactions, Central Counterparties and Trade Repositories, Council of the European Union Final Compromise Text, Article 1(4a(a)) (Mar. 19, 2012) (published in final form on July 4, 2012 with no change to Article 1(4a(a))). ESM is not included on either list.

In 2013, the Division granted a request for relief from the Clearing Requirement to Corporación Andina de Fomento (“CAF”) because the Division found that CAF’s mission and ownership structure was analogous to the missions and ownership structures of the international financial institutions referenced in the final Federal Register release adopting the End-User Exception.<sup>9</sup>

### Summary of Request for Relief

The Request Letter asserts that the policy considerations on which the Commission relied to exclude international financial institutions from the Clearing Requirement apply to ESM due to ESM’s public interest mission and ownership by sovereign nations.

The Request Letter represents that ESM’s mission is to provide financial assistance to a European Union member state that is also a member of the Eurozone in the event that such country is unable to raise money in the capital markets. ESM may provide financial assistance by making a loan to a Eurozone member state, purchasing such country’s bonds, or recapitalizing a financial institution located in such country. To date, ESM, and its predecessor entity, the European Financial Stability Fund (established 2010), have disbursed 264.8 billion euros to five Eurozone member countries. ESM may decide to enter into interest rate swaps subject to the Clearing Requirement in order to hedge interest rate risk arising out of ESM’s borrowing or investment activities.

ESM was established in 2012 pursuant to an international treaty among the 17 European Union member states that were Eurozone members at that time.<sup>10</sup> Currently, all 19 Eurozone member states are ESM members.<sup>11</sup> Each of these countries is an ESM shareholder and has paid in capital to ESM. There are no other shareholders. ESM is governed by a Board of Governors and a Board of Directors. Each of the 19 ESM member states appoints representatives to these governing bodies. The Board of Governors is chaired by the President of the “Eurogroup” (the finance ministers of the Eurozone countries). Currently, the President of the Eurogroup is the Minister of Finance of the Netherlands. The Request Letter represents that ESM, together with its income, property, and other assets, is exempt from taxation and that ESM’s property and assets are free from controls, expropriation, moratoria, regulations, or restrictions of any nature. The Request Letter represents further that ESM poses a credit risk comparable to the international financial institutions referenced in the final Federal Register release adopting the End-User Exception. Finally, according to the Request Letter, ESM is generally exempt from the European Market Infrastructure Regulation (“EMIR”), including the obligation to clear certain classes of derivatives. ESM is still subject to EMIR swap reporting requirements.

---

<sup>9</sup> CFTC Letter 13-25 (June 10, 2013).

<sup>10</sup> ESM website, available at:  
<https://www.esm.europa.eu>.

<sup>11</sup> The current Eurozone members are: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, and Spain.

In summary, the Request Letter asserts that the policy considerations on which the Commission relied to exclude international financial institutions from the Clearing Requirement, and on which the Division subsequently relied to grant no-action relief from the Clearing Requirement to CAF, apply to ESM. Like CAF and other international financial institutions, ESM provides financial assistance to certain member countries, serves the public interest, and is owned by sovereign nations each of which grants ESM legal privileges and immunities.

#### Grant of No-Action Relief

Based on the facts described by the Request Letter, the Division will not recommend that the Commission take enforcement action against ESM for failure to comply with the Clearing Requirement. This letter does not, however, provide relief from other provisions of the CEA and Commission regulations, such as the recordkeeping and reporting requirements under parts 23 and 45 of the Commission's regulations, which would apply to a non-cleared swap entered into by ESM opposite a counterparty that is subject to the CEA and Commission regulations with regard to that transaction.<sup>12</sup>

This letter represents the position of the Division only and does not necessarily represent the views of the Commission or those of any other division or office of the Commission. Because this position is based upon the representations contained in the Request Letter, it should be noted that any different, changed, or omitted material facts or circumstances may require a different conclusion or render this no-action letter void. Finally, as with all no-action letters, the Division retains the authority to condition further, modify, suspend, terminate, or otherwise restrict the terms of the no-action relief provided herein, in its discretion.

Should you have questions regarding this matter, please contact Peter A. Kals, Special Counsel, at (202) 418-5466.

Sincerely,

Brian A. Bussey  
Director

---

<sup>12</sup> End-User Exception, 77 Fed. Reg. at 42,562.