U.S. COMMODITY FUTURES TRADING COMMISSION
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Division of Clearing
and Risk

Stephen Morris
Executive Director and Counsel
Morgan Stanley
1221 Avenue of the Americas
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Alternative Compliance Schedule for Regulation 1.74 – Timing of Acceptance of Trades for Clearing

Dear Mr. Morris:

On April 9, 2012, the Commission published rules relating to the timing of acceptance of trades for clearing.[1] The Rules are codified in Part 1 of the Commission's regulations and became effective on October 1, 2012. Section 1.74(a) requires a clearing futures commission merchant ("FCM") of a registered derivatives clearing organization ("DCO") to accept or reject trades for clearing "as quickly as would be technologically practicable if fully automated systems were used."

On September 21, 2012, in response to requests from the industry, the Division of Clearing and Risk ("DCR") set forth its expectations concerning what length of time would be "as quickly as would be technologically practicable if fully automated systems were used." DCR stated that starting October 1, 2012, it expected each FCM to accept or reject a trade for clearing and submit it to the DCO within 120 seconds. DCR further stated that starting on the date 90 days following publication in the Federal Register of the final rule for the clearing requirement determination, ("T+90")[2] DCR expects each FCM to accept or reject a trade for clearing and submit it to the DCO within 60 seconds.

On October 4, 2012, Morgan Stanley sought an alternative compliance schedule for Regulation 1.74. Seven other firms also sought alternative schedules. The requested alternative schedules range from full compliance by December 31, 2012 to acceptance of the median of all trades within 90 seconds by T+90.

DCR notes that several FCMs stated publicly before October 1, 2012, that they had developed systems and procedures enabling them to be in full compliance by that date. DCR further notes, however, that each of the requesting firms clears a substantial volume of swaps.

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[1] 77 FR 21278.
[2] Proposed at 77 FR 47170.

DCR has reviewed each of the requests. As noted, three firms expressed an ability to achieve compliance by December 31, 2012. One of the firms stated that it currently has over 70% of the market share for customer trades. DCR believes that if the entity with the most volume is able to comply with Regulation 1.74 by that date, then acceptance or rejection within the same timeframe is technologically practicable for firms with lesser volume.

In light of these circumstances, DCR has determined that it is appropriate to establish a single alternative compliance schedule for all requesting firms. Accordingly, pursuant to the authority delegated by Regulation 1.75, DCR is establishing the following alternative compliance schedule:

- On or before January 1, 2013, each FCM must accept or reject each trade submitted to it for clearing within 120 seconds.

- On or before T+90, each FCM must accept or reject each trade submitted to it for clearing within 60 seconds.

This extension is granted by DCR in reliance on the representations contained in your request, and any different, changed, or omitted material facts or circumstances may require termination of the extension and immediate action by the FCMs to facilitate compliance. DCR retains the authority to condition further, modify, suspend, or otherwise restrict the extension granted herein.

If you have any questions concerning this correspondence, please contact John C. Lawton, Deputy Director, at 202-418-5480, or jlawton@cftc.gov, or Christopher Hower, Attorney-Advisor, at 202-418-6703 or chower@cftc.gov.

Sincerely,

Ananda Radhakrishnan
Director