



Swap Package Transactions
CFTC Technology Advisory Committee
Feb 10th, 2014

Examples of Package Swaps

- **Swap Curve:** Package of two swaps of differing tenors
- **Swap Butterfly:** Package of three swaps of differing tenors
- **Unwind / offset packages:** Portfolio of swaps of differing tenors
- **Swap Spreads:** Government bonds vs. swaps typically within similar tenors
- **MBS Basis:** TBAs (Agency MBS) vs. swap spreads
- **Invoice Spreads:** Treasury-note or Treasury-bond futures vs. swaps
- **Cash/Futures Basis:** Eurodollar futures bundles vs. swaps
- **Delta-Neutral Option Packages:** Caps, floors, or swaptions vs. swaps
- **Complexity increases** as you go from MAT/MAT to MAT/NON-MAT and then from to CLEARED/UNCLEARED and then to SWAP/NON-SWAP Packages

- **Market Infrastructure DOES NOT EXIST:**

- To track a package as one atomic unit;
- Evaluate the pre-trade credit checks;
- Assess the risk of a package in aggregate;
- Process and clear the entire package as one unit.
- Regulatory framework does not account for recognizing packages and the additional complexity and time required to process, trade and clear packages as one unit.

Exclude swaps that form part of a Package Transaction from the scope of the execution mandate at the current time

- Individual Over the Counter Interest Rate Derivative transactions are often executed together as a package transaction (one economic transaction) to either achieve a specific risk profile or to manage the size of a given portfolio (portfolio maintenance).
- Historically there has not been a reason to identify and maintain the grouping and risk profile of an executed transaction package within the Market standard transaction life cycle (from execution through confirmation / affirmation).
- To adapt the current market standard OTC Interest Rate Derivative transaction life cycle and work flow to maintain the integrity of a package transaction throughout the transaction life cycle, a group of sophisticated market participants (Buy Side Firms, FCMs, CCPs and SEFs/DCMs) are proposing the following Package Transaction Grouping Identifiers and Workflows.

Emerging Pain Points

- Market Participants are executing package transactions (one economic transaction) in the Market that include multiple OTC Interest Rate Derivatives. However, since there is no mechanism in the current Market standard trade workflow to group individual trades into package transactions, each individual trade within a given package transaction is being individually submitted to the CCP / FCM for credit analysis/approval and registration.
- As a result of the current individual trade transmission and submission workflow to the CCP / FCM the structure and risk profile of the package transaction is not maintained or transmitted to the CCP / FCM. This individual trade submission to the FCM / CCP creates the potential for temporarily incorrect changes in the portfolio risk at the FCM/ CCP and in turn leads the **FCM to observe/calculate changes in client portfolio risk, in many cases does not reflect the true intended risk of the client and could lead to incorrect breaches of credit limits due to trade flow ordering.**
- The regulatory requirement to accept or reject trades by the DCO is under 10 seconds and currently does not account for packages and needs to reevaluate.

Objectives and Visions

- To define a single industry standard Package and Position ID Format that will uniquely identify a package trade throughout the SEF and Voice Executed transaction life cycle (from execution through clearing at the CCP) and to define how the current Market Standard workflow will change to support Package Transactions.
- To have a diverse group of FCMs, CCPs, buy-side firms, market makers, SEFs and DCMs immediately adopt the standards and protocols for implementation in 2014.

- A Package Transaction is a group of trades executed as one economic transaction.
- The below Package Transaction types will be supported in the standard workflow:

Package Transaction Types Included in the Package Transaction Grouping Identifier and Workflows Proposal	
Packages Executed for Exposure to a Specific Risk Profile	Packages Executed for Portfolio Maintenance
<ol style="list-style-type: none"> 1. Switch = SW (two points on the Swap Curve 5yr vs. 30yr) 2. Swap Spread = SS (Swap vs. Sovereign Debt) 3. Invoice Spread = IS (Swap vs. Futures) 4. Butterfly = BF (three points on the Swap Curve, 2yr-5yr-10yr) 5. Basis Swaps = BS (In EUR Basis Swaps are executed as 2 legs) 6. FRAs/OIS = FO (FRA/OIS Spreads are executed as a package) 	<ol style="list-style-type: none"> 1. Termination = TE 2. Compaction = CM 3. Compression = CP 4. Rebalance = RE 5. Allocation = AL 6. Backload= BL 7. Order Book = OB

Package and Position ID Details and Format

•Package ID:

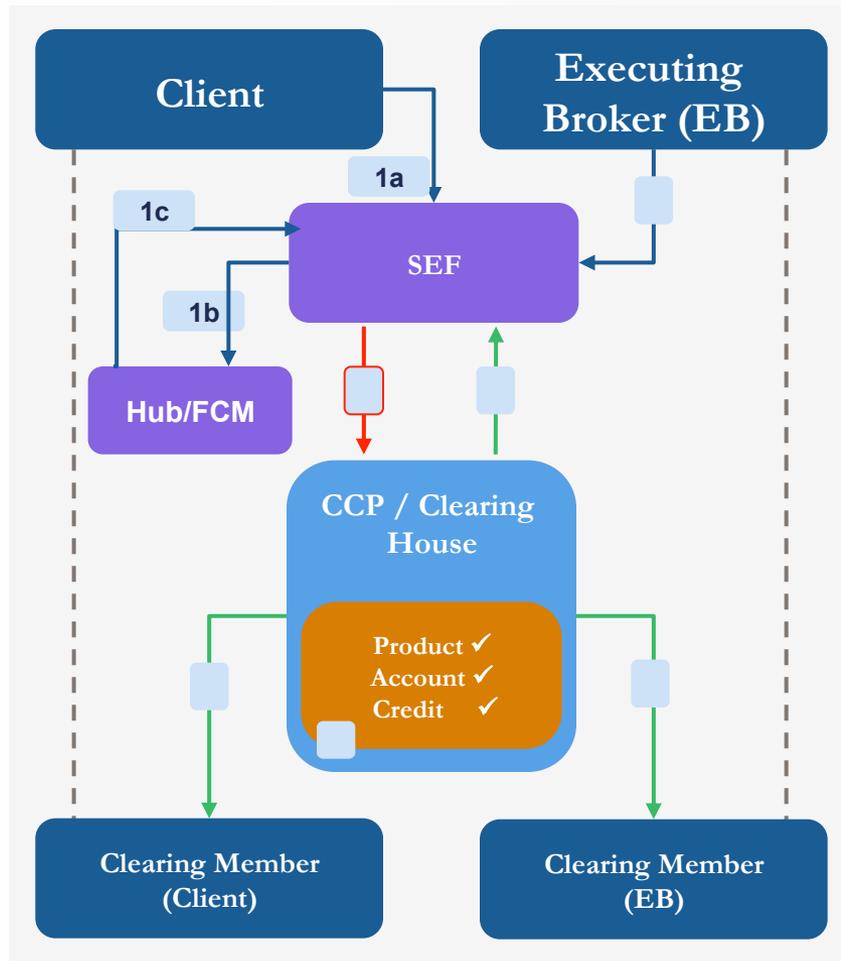
1. A Package ID will be created for each unique trade package that identifies the platform on which the package is executed (if voice executed the platform will be considered “voice”), the number of line items in the Package, and a unique ID (similar to USI) assigned by the platform.
2. The Package ID is assigned as soon as the Package is created or sent to external parties. (this needs to be more specific)
3. The Package ID will be populated in the Block ID field of FpM. (FIXml details are TBD)
4. Package ID format:
<Platform mnemonic>< package type><trade count (up to 999,999)><Unique ID from Platform>
Platform mnemonic may be too restrictive, since bilateral packages should also be supported.
Platform mnemonic is identified as the platform on which the trade occurs (should be generic enough to handle all venues).
Could also use USI Namespace.

•Position ID:

1. A Position ID will be created for each line item in a Package when that package reaches a final approval state and trades are sent to downstream services. Thus, all line items in a package that is still in draft mode or an active state will NOT have a Position ID
2. A Position ID is distinct from the Trade USI – to allow for recipients of a Package of trades to be able to evaluate each trade received in the context of the overall Package.
3. Position ID will be used to populate the RptID field in FIXml (both the CCP message and single-sided confirmation message sent via FIX) and the MessageID field in FpML (LCH message, DTCC message, and single-sided FpML as needed).
4. Position ID format:
<Package ID>< -<count for this trade (up to 999,999)>
5. The order to count each line item in a package does not matter except for specific package types (e.g., Compaction packages) that balance risk reduction from termination with risk addition.

•Examples:

1. Package ID Examples
TEXPTCTE0000350012345 → a Termination Package traded on trueEX PTC platform with 35 total line items
TEXDCMSW0000020054321 → a Switch trade traded on trueEX DCM platform with 2 total line items
2. Positions ID Examples:
TEXPTCTE0000350012345-000011 → the 11th Line Item in the TEXPTCT0000350012345 Package
TEXDCMSW0000020054321-000002 → the second Line Item in the TEXDCMS0000020054321 Package
3. Both the Package and Position IDs are limited to a maximum of 32 characters so as not to impact existing FpML and FIXml processing.



- 1a. Client defines package transaction on SEF, or Client enters package order on SEF.
 - 1b. SEF requests credit approval from FCM / Credit Hub for Client.
 - 1c. SEF receives credit approval from FCM / Credit Hub for Client.
2. Executing Broker (EB) executes against Client package transaction on SEF – Package and Position IDs are set and assigned in this step.
 3. SEF sends executed package transaction to the CCP for Clearing as a single message, containing all positions – This submission includes the Package & Position IDs.
 4. After validating product, account and applying credit limits set by CCP, CCP accepts package transaction for clearing – The CCP accepts or rejects the complete package as a single action.
 5. CCP sends “*Cleared*” notification to SEF which displays trade status to principals. This is a Package level message.
 6. CCP sends a Clearing Confirmation to FCMs for each individual trade within the package. Package and Position ID will be added to each trade .

Recommendations

- Reevaluate the “as soon as technologically possible”- “ASATP” standard for packages
 - Time for FCMs to assess the net market risk
 - Time for DCO’s to accept or reject a package
- Have market infrastructure and regulatory framework criteria checklist
 - ✓ Regulatory framework accommodates packages
 - ✓ SEFs allows market participants to execute packages as a whole
 - ✓ FCMs and Hubs have the ability to assess the risk characteristics of a package as a whole
 - ✓ DCOs have the ability to manage, measure and process packages as a whole

Phase I (Cleared Swaps only)

Packages that contain only MAT Swaps (Swap Curve, Swap Butterfly, Offset, etc.)

Packages of swaps only that contain 1 or more NON-MAT Swaps



Phase II

All other packages (cleared vs. uncleared and swap vs. non-swap)