



Commodity Futures Trading Commission

Office of Public Affairs

Three Lafayette Centre

1155 21st Street, NW

Washington, DC 20581

www.cftc.gov

Q & A – Confirmation, Portfolio Reconciliation, and Portfolio Compression Requirements for Swap Dealers and Major Swap Participants

What is the goal of the proposed rulemaking?

The Dodd-Frank Act authorizes the CFTC to adopt regulations setting forth standards for the timely and accurate confirmation, processing, netting, documentation, and valuation of swaps. The goal of the proposed rulemaking is to establish standards for swap confirmation as well as standards for portfolio reconciliation and portfolio compression, two post-trade processing procedures that effectuate the timely and accurate netting and valuation of swaps.

What registrants are covered by the proposed regulations?

The proposed regulations would apply to swap dealers and major swap participants.

By when must comments on the rules be submitted?

Comments on the rules must be submitted within sixty (60) days of the publication of the proposal in the Federal Register.

What are the confirmation requirements?

The proposed regulations would require swap dealers and major swap participants to execute confirmations of all swap transactions in which their counterparty is another swap dealer or major swap participant on the execution date. For swap transactions with other types of counterparties, swap dealers and major swap participants would be required to send an acknowledgement of the transaction on the execution date, and would be required to have policies and procedures in place to confirm the swap transaction on the same calendar day as execution for financial entities, as defined in section 2h(7)(c) of the CEA, and on the next business day for all other counterparties.

While the Commission encourages the use of master confirmation agreements and other standardized documentation that has been developed by the industry, the proposed rules would not prescribe the particular acknowledgement or confirmation documentation that market participants would be required to use, nor would it prescribe a particular venue or platform for confirmation.

What are the portfolio reconciliation requirements?

Swap dealers and major swap participants would be required to reconcile swap portfolios with other swap dealers or major swap participants with the varying frequency, depending upon the size of the particular portfolio. Discrepancies in material terms identified as part of a portfolio reconciliation process would be required to be resolved immediately. Discrepancies in valuation would be required to be resolved within one business day.

For swap portfolios involving a counterparty that is not a swap dealer or major swap participant, the proposed regulations would require that swap dealers and major swap participants establish written policies and procedures to

perform portfolio reconciliation with varying frequency, depending upon the size of the portfolio. Swap dealers and major swap participants also would be required to establish written procedures reasonably designed to resolve any identified discrepancies in the material terms or valuation of swaps in a timely fashion.

What are the portfolio compression requirements?

The proposed regulations would establish certain offset and portfolio compression requirements for swap dealers and major swap participants with respect to swaps in which their counterparty is also a swap dealer or major swap participant. Specifically, swap dealers and major swap participants would be required to participate in multilateral portfolio compression exercises required by Commission regulation or order or offered by a derivatives clearing organization, a self-regulatory organization, or a self-regulatory association of which the swap dealer or major swap participant is a member.

Swap dealers and major swap participants also would be required to terminate bilaterally all fully offsetting swaps between them within one day and to engage annually in bilateral portfolio compression exercises with counterparties that are also swap dealers or major swap participants.

The proposed regulation would not mandate portfolio compression exercises for swaps between a swap dealer or a major swap participant and counterparties that are not swap dealers or major swap participants. Instead, swap dealers and major swap participants would be required to maintain written policies and procedures for periodically terminating any fully offsetting swaps and for periodically engaging in compression exercises.