



U.S. COMMODITY FUTURES TRADING COMMISSION

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CFTC Letter No. 14-01
No-Action
January 3, 2014
Division of Swap Dealer and Intermediary Oversight
Division of Clearing and Risk
Division of Market Oversight

Re: Extension of No-Action Relief: Transaction-Level Requirements for Non-U.S. Swap Dealers

Ladies and Gentlemen:

This letter extends the no-action relief provided by CFTC Staff Letter 13-71, which responded to requests received by the Division of Swap Dealer and Intermediary Oversight (“**DSIO**”), the Division of Clearing and Risk, and the Division of Market Oversight (collectively, the “**Divisions**”) of the Commodity Futures Trading Commission (“**Commission**”) from swap dealers (“**SDs**”) registered with the Commission that are established under the laws of jurisdictions other than the United States (“**Non-U.S. SDs**”),¹ seeking time-limited relief from certain transaction-level requirements (as described below) under the Commodity Exchange Act (“**CEA**”) and the Commission’s regulations promulgated thereunder. The Non-U.S. SDs sought relief from such requirements when entering into swaps with a counterparty that is not a U.S. person.²

I. Background

A. Transaction-Level Requirements

¹ Although the relief contained herein was requested by certain Non-U.S. SDs, such relief is available to all Non-U.S. SDs.

² As used in this letter, the term “U.S. person” has the same meaning as in the Interpretive Guidance and Policy Statement Regarding Compliance with Certain Swap Regulations (the “**Guidance**”), 78 FR 45292 at 44316-17 (July 26, 2013).

When entering into a swap, an SD is required to comply with certain “Transaction-Level Requirements”³ with respect to the transaction. The Transaction-Level Requirements cover a range of requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act⁴ and Commission regulations promulgated thereunder: some of the requirements more directly address financial protection of SDs and their counterparties; others address more directly market efficiency and/or price discovery. The Commission believes that the Transaction-Level Requirements may be applied on a transaction-by-transaction basis.⁵

B. The DSIO Advisory

On November 14, 2013, DSIO issued an advisory⁶ in response to inquiries from swap market participants regarding the applicability of the Commission’s Transaction-Level Requirements with respect to swaps between a Non-U.S. SD (whether an affiliate or not of a U.S. person) and a non-U.S. person if the swap is arranged, negotiated, or executed by personnel or agents of the Non-U.S. SD located in the United States.

In the advisory, DSIO stated its belief that persons regularly arranging, negotiating, or executing swaps for or on behalf of an SD are performing core, front-office activities of that SD’s dealing business, and thus, “a non-U.S. SD (whether an affiliate or not of a U.S. person) regularly using personnel or agents located in the U.S. to arrange, negotiate, or execute a swap with a non-U.S. person generally would be required to comply with the Transaction-Level Requirements.”

II. Relief Requested

Subsequent to issuance of the DSIO advisory, the Divisions received multiple requests from Non-U.S. SDs for time-limited relief from compliance with the Transaction-Level Requirements when entering into swaps with non-U.S. persons that are not guaranteed affiliates⁷

³ For purposes of this letter, the term “Transaction-Level Requirements” refers to the requirements set forth in Commission regulations 23.202, 23.205, 23.400 to 23.451, 23.501, 23.502, 23.503, 23.504, 23.505, 23.506, 23.610 and parts 43 and 50. The Divisions note that (1) the Commission has not yet finalized regulations regarding margin for uncleared swaps, (2) compliance with its regulations regarding segregation for uncleared swaps is not yet required, and (3) it has not yet determined that any swap is “available to trade” such that a trade execution requirement applies to the swap. *See* Exemptive Order Regarding Compliance with Certain Swap Regulations (the “**Exemptive Order**”), 78 FR 43785 at 43794 (July 22, 2013).

⁴ *See* Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376 (July 21, 2010).

⁵ *See* the Guidance, 78 FR at 45366.

⁶ The DSIO Advisory is available on the Commission’s website:
<http://www.cftc.gov/ucm/groups/public/@lrllettergeneral/documents/letter/13-69.pdf>.

⁷ For purposes of this letter, the terms “guarantee” and “guaranteed affiliate” have the same meaning as in the Exemptive Order. *See* 78 FR at 43794.

or conduit affiliates⁸ of a U.S. person using personnel or agents located in the United States to arrange, negotiate, or execute such swaps (such swaps, the “**Covered Transactions**”). The Non-U.S. SDs represented that, in order to avoid market disruption for their non-U.S. counterparties, such time-limited relief was necessary to allow them to organize their internal policies and procedures to come into compliance with the Transaction-Level Requirements when entering into Covered Transactions.

III. Staff Position

As was the case in CFTC Staff Letter 13-71, the Divisions note that, as of the date of this letter, the Divisions have not recommended that the Commission take an enforcement action against a Non-U.S. SD (whether or not an affiliate of a U.S. person) for failure to comply with any applicable Transaction-Level Requirement when entering into any Covered Transaction.

Subsequent to the issuance of CFTC Letter 13-71, the Commission has requested public comment regarding compliance issues implicated by Covered Transactions. In view of the foregoing, the Divisions are hereby extending the date of the time-limited staff no-action relief provided in CFTC Letter No. 13-71.

Accordingly, until **September 15, 2014**, the Divisions will not recommend that the Commission take an enforcement action against a Non-U.S. SD (whether or not an affiliate of a U.S. person) for failure to comply with:

- (a) Any applicable Transaction-Level Requirement with respect to a Covered Transaction if the Covered Transaction is not with a Non-U.S. SD; and
- (b) If the Covered Transaction is with a Non-U.S. SD, any Transaction-Level Requirement other than (i) the multilateral portfolio compression requirements under Commission regulation 23.503; and (ii) the swap trading relationship requirements under Commission regulation 23.504.

This letter, and the positions taken herein, represent the views of the Division of Swap Dealer and Intermediary Oversight, the Division of Clearing and Risk, and the Division of Market Oversight only, and do not necessarily represent the positions or views of the Commission or of any other office or division of the Commission. The relief issued by this letter does not excuse persons relying on it from compliance with any other applicable requirements contained in the CEA or in the Regulations issued thereunder. Further, this letter, and the relief contained herein, is based upon the representations made to the Divisions. Any different, changed or omitted material facts or circumstances might render this no-action relief void. This letter does not create or confer any rights for or obligations on any person or persons subject to compliance with the CEA that bind the Commission or any of its other offices or divisions. As

⁸ For purposes of this letter, the term “conduit affiliate” has the same meaning as in the Guidance. *See* 78 FR at 45358-59.

with all no-action letters, the Divisions retain 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 any questions, please do not hesitate to contact Gary Barnett, Director, DSIO, at (202) 418-5977; Frank Fisanich, Chief Counsel, DSIO, at (202) 418-5949; or Ward Griffin, Associate Chief Counsel, DSIO, at (202) 418-5425.

Very truly yours,

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