



Commodity Futures Trading Commission

Office of Public Affairs

Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581
www.cftc.gov

Q & A – Clearing Requirement Determination under Section 2(h) of the CEA

Some DCOs clear interest rate swaps in 17 different currencies, does the clearing requirement apply to all 17 currencies?

No, the proposed clearing requirement would apply to only four currencies: U.S. dollar, euro, British pound sterling, and Japanese yen. Examination of market data revealed the existence of significant outstanding notional amounts and trading liquidity in the seventeen currencies identified in the DCO submissions. However, the Commission notes that swaps using the four currencies listed above account for over ninety percent of both notional amounts outstanding and trading volumes for the overall interest rate swap market. For this reason and to avoid introducing too much required clearing too quickly, the Commission required clearing for only four currencies at this time.

Are tranch CDS required to be cleared?

No, tranch CDS are not required to be cleared. The Commission recognizes that there is a significant market for tranch swaps using the indices. In these transactions, parties to the CDS contract agree to address only a certain range of losses along the entire loss distribution curve. Other swaps such as first or “Nth” to default baskets, and options, also exist on the indices. However, these swaps are not being cleared currently and were not submitted by any DCO for consideration under § 39.5.

Will the clearing requirement apply to swaps entered into prior to 2012?

No. The rules codify statutory provisions that make clear that any swaps entered into prior to the enactment of the Dodd-Frank Act or prior to the application of the clearing requirement are not required to be cleared.

Will the implementation of the clearing requirement be phased?

Yes, the Commission has decided to phase compliance with the clearing requirement by type of market participant. To promote certainty for market participants, the Commission is setting specific compliance dates: Monday, March 11, 2013 for Category 1 Entities; Monday, June 10, 2013 for Category 2 Entities; and Monday, September 9, 2013 for Category 3 Entities.

Must swaps executed prior to the applicable compliance date be cleared?

No, a market participant must only clear those swaps executed on or after the applicable compliance date.

Is there a special compliance date for iTraxx swaps subject to the clearing requirement?

No, but if no eligible DCO has begun offering client clearing for iTraxx by February 11, 2013, then the Commission will delay compliance for clearing those swaps until 60 days after the date on which an eligible DCO offers iTraxx indices for client clearing. Compliance will be phased for Category 2 and Category 3 Entities provided that client clearing is offered prior to September 9, 2013.