



Commodity Futures Trading Commission

Office of Public Affairs

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Final Rulemaking Regarding Core Principles and Other Requirements for Swap Execution Facilities

The Commodity Futures Trading Commission (Commission) is adopting regulations, guidance, and acceptable practices governing the registration and operation of swap execution facilities (SEFs). The final rulemaking implements provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act).

The Dodd-Frank Act Established SEFs and Provided Related Obligations Under the Commodity Exchange Act (CEA)

On July 21, 2010, President Obama signed the Dodd-Frank Act, which amended the CEA to establish a comprehensive new regulatory framework for swaps and security-based swaps.

Section 721 of the Dodd-Frank Act added Section 1a(50) of the CEA, which defines SEF.

Section 723 of the Dodd-Frank Act added Section 2(h)(8) of the CEA, which requires that the execution of certain swaps, those that are subject to the mandatory clearing requirement of CEA Section 2(h), occur on a designated contract market (DCM) or SEF, unless no DCM or SEF makes the swap available to trade.

Section 733 of the Dodd-Frank Act added Section 5h of the CEA, which provides registration and core principle requirements for SEFs.

SEF Registration Requirements

The final regulations implement the SEF registration requirement in CEA Section 5h(a)(1) by requiring facilities that meet the SEF definition in CEA Section 1a(50) to register as SEFs. The final rulemaking also clarifies that swap transactions that are not subject to the CEA Section 2(h)(8) trade execution requirement may be executed on either a registered SEF or an alternative entity that is not required to register as a SEF.

The final regulations require a facility that must register as a SEF to provide a minimum trading functionality, which is defined as an “Order Book.” Order Book means an electronic trading facility as defined in CEA Section 1a(16), a trading facility as defined in CEA Section 1a(51), or a trading system or platform in which all market participants in the trading system or platform have the ability to enter multiple bids and offers, observe or receive bids and offers entered by other market participants, and transact on such bids and offers.

The final regulations establish procedures for the registration of SEF applicants, including a temporary registration process.

SEF Execution Methods

The final regulations define Required Transaction as any transaction involving a swap that is subject to the trade execution requirement in CEA Section 2(h)(8) and Permitted Transaction as any transaction not involving a swap that is subject to the trade execution requirement in CEA Section 2(h)(8).

Each Required Transaction that is not a block transaction must be executed on a SEF in accordance with one of the following execution methods: (i) an Order Book; or (ii) a Request for Quote System that operates in conjunction with an Order Book. In providing either one of these execution methods, a SEF may use “any means of interstate commerce,” provided that the chosen execution method satisfies the requirements in the rules. For Permitted Transactions, a SEF may offer any method of execution.

The Commission’s Final Regulations, Guidance, and Acceptable Practices Govern the Obligations of SEFs Under the CEA

The final rulemaking codifies regulations and provides guidance and acceptable practices governing the obligations of SEFs to comply with the applicable provisions of the CEA, as amended by the Dodd-Frank Act, including the 15 core principles under Section 5h of the CEA.

Specifically, the final regulations, guidance, and acceptable practices govern the general obligations of SEFs under the core principles, including, but not limited to:

- Trading and product requirements;
- Compliance obligations;
- Surveillance obligations;
- Operational capabilities; and
- Financial information and resource requirements.