



Commodity Futures Trading Commission

Office of Public Affairs

Three Lafayette Centre

1155 21st Street, NW

Washington, DC 20581

www.cftc.gov

Core Principles and Other Requirements For Swap Execution Facilities

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 Established SEFs and Provided Related Obligations Under the Commodity Exchange Act (CEA)

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

Congress established the new regulatory framework by:

- Creating a definition for SEFs under Section 721 of the Dodd-Frank Act, which added new Section 1a(50) to the CEA;
- Creating an execution requirement under Section 723 of the Dodd-Frank Act, which added new Section 2(h)(8) to the CEA; and
- Creating registration and core principle requirements for SEFs under Section 733 of the Dodd-Frank Act, which added new Section 5h to the CEA.

SEF Definition and Registration Requirements

The Commission proposes to implement the definition of SEF under CEA Section 1a(50) and the registration requirements under CEA Section 5h by:

- Requiring SEFs to provide a basic functionality that gives all market participants the option to post both firm and indicative quotes to multiple parties, including all other parties participating in the SEF; and
- Providing that SEFs have the option to deploy any trading system or platform that provides the basic functionality noted above, including request for quote systems or order books.

Execution Requirement

The Commission proposes to implement the execution requirement under CEA Section 2(h)(8) by:

Allowing Required Transactions to be traded on Request for Quote Systems or Order Books

- Required Transactions:
 - Are subject to the clearing and execution requirements under the CEA;
 - Are made available for trading; and
 - Are not block trades.
- Request for Quote Systems include:

- Trading systems or platforms in which a market participant must transmit a request for a quote to buy or sell a specific instrument to no less than five market participants in the trading system or platform, to which all such market participants may respond. Any bids or offers resting on the trading system or platform pertaining to the same instrument must be taken into account and communicated to the requester along with the responsive quotes;
- Trading systems or platforms in which multiple market participants can both:
 - View real-time electronic streaming quotes, both firm and indicative, from multiple potential counterparties on a centralized electronic screen; and
 - Have the option to complete a transaction by:
 - Accepting a firm streaming quote; or
 - Transmitting a request for quote to no less than five market participants, based upon an indicative streaming quote, taking into account any resting bids or offers that have been communicated to the requester along with any responsive quotes.
- Any such other trading system or platform as may be determined by the Commission.
- Order Books include:
 - Electronic trading facilities as defined under the CEA;
 - Trading facilities as defined under the CEA;
 - Trading systems or platforms in which all market participants in the trading system or platform can enter multiple bids and offers, observe bids and offers entered by other market participants, and choose to transact on such bids and offers; and
 - Any such other trading system or platform as may be determined by the Commission.

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

The Commission proposes to codify regulations and provide 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 registration requirements and the fifteen core principles under Section 5h of the CEA.

Specifically, the proposed regulations, guidance and acceptable practices govern the general obligations of SEFs, including:

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