OTC INTELLIGENCE
May 22, 2013

Rates
Money Market
Derivatives

The Commodity Futures Trading Commission (CFTC) held a public meeting on May 16, 2013 to discuss trade execution rules and anti-disruptive trading practice guidance, including:

- Procedures to Establish Appropriate Minimum Block Sizes for Large Notional Off-Facility Swaps and Block Trades (Swaps Block Rule)
- Process for a Designated Contract Market or Swap Execution Facility to Make a Swap Available to Trade and trade Execution Requirement (Made Available to Trade Rule)
- Core Principles and Other Requirements for Swap Execution Facilities (SEFs)
- Anti-disruptive Practices Authority – Interpretive Guidance and Policy Statement

All four of the rules were passed and are expected to be published by the Federal Register in June. Once published by the Federal Register, a decision will be made to either enforce the rules by a specific date or introduce on a phased-in basis.

The infrastructure of the Canadian electronic interest rate swaps market, introduced by CanDeal and Tradeweb in late 2012, currently achieves the majority of the required trade execution rules and will be fully compliant for the SEF registration and regulated implementation. Marketplace participants will soon be required to transact swaps electronically when dealing with a U.S. counterparty, and can do so confidently on the existing marketplace. To date, these rules apply to currencies that have been mandated for central clearing.

Below is a summary of each of the rules that were voted on and how these rules will impact market participants.

RULE 1

- Two-phased approach – CFTC sets levels in initial period, and then adjusts after one year of Swap Data Repository (SDR) data to reflect 67% notional calculation.
- Total trade size to be masked beyond 75% notional threshold (largest trade size within lowest 75% of notional volumes for a given category).
- Levels updated at least annually.

Implications for Market Participants

- Be aware that there will be full disclosure of swap trade terms for all trades below block size
- Block threshold will change at least annually

RULE 2

- All swaps subject to the clearing requirement to be traded electronically, except where no SEF or DCM makes them "available to trade".
- If swap no longer made available to trade, the trading obligation will cease.
- Market participants to comply with trade execution requirement on the latter of: the clearing deadline and 30 days after the approval of a swap being made available to trade.

Implications for Market Participants

- Most swaps must now be traded electronically

RULE 3

- Facilities that meet the definition of a SEF must register as a SEF.
- Swaps that are not subject to the trade execution requirement do not have to be traded on SEFs.
- RFQs will be required to include a minimum of 2 liquidity providers during the initial phase-in period (12-14 months), thereafter RFQs will be required to include a minimum of 3 liquidity providers.
- SEFs must provide order book functionality, allowing all market participants to enter multiple bids and offers and execute with each other on them.
- All trades subject to the trade execution requirement (Required Trades) must be traded on a SEF, unless they are block trades. Required trades must be executed by order book or RFQ. 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.
- Rule permits "work-up" sessions after an initial transaction is executed on a SEF. Initial counterparties may be given priority by the SEF.

Implications for Market Participants

- Clients will be able to use order book functionality as well as RFQ

RULE 4

- Certain trading practices are expressly forbidden, including any action that:
  - Violates bids and offers
  - Intentionally or recklessly disrupts orderly execution
  - Spoofs (bidding or offering with the intent to cancel the bid or offer before execution)

Implications for Market Participants

- Fishing" is outlawed in the U.S. market – there must be an intent to trade when launching an RFQ
- Overall scrutiny on trading practices is increasing

For more information:
Mke White
416.814.7830 | mwhite@candeal.com

CANDEAL