



Commodity Futures Trading Commission

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Procedures to Establish Appropriate Minimum Block Sizes for Large Notional Off-Facility Swaps and Block Trades; Further Measures to Protect the Identities of Parties to Swap Transactions Questions & Answers

What is the goal of the rulemaking?

The final rulemaking defines the criteria for grouping swaps into separate swap categories and establishes methodologies for setting appropriate minimum block sizes for each swap category. The rule sets forth additional measures under part 43 of the Commission's regulations to prevent the public disclosure of the identities, business transactions and market positions of swap market participants. The rule is designed to enhance market transparency and price discovery by making swap transaction and pricing data available to the public, while also protecting the identities, business transactions, and market positions of swap counterparties.

What does section 2(a)(13) of the CEA require?

Section 727 of the Dodd-Frank Act amends the Commodity Exchange Act (CEA) by inserting a new section 2(a)(13) which requires the Commission to prescribe regulations specifying what constitutes a large notional swap transaction (block trade) for purposes of applying appropriate time delays to reporting such transactions to the public. CEA section 2(a)(13) also requires the Commission to consider whether public disclosure of swap transaction and pricing data will "materially reduce market liquidity" and prescribe rules that protect the identities of counterparties to mandatorily-cleared swaps, swaps excepted from the mandatory clearing requirement and voluntarily cleared swaps. CEA section 2(a)(13) further requires the Commission to prescribe rules that maintain the anonymity of business transactions and market positions of swap counterparties.

Which swaps are subject to appropriate minimum block sizes?

Unless otherwise determined by the Commission, all publicly reportable swap transactions under the Commission's jurisdiction in all five asset classes (i.e., interest rate, credit, equity, foreign exchange, and other commodity), whether cleared or uncleared, and regardless of method of execution (e.g., executed bilaterally, or on a registered swap execution facility (SEF) or designated contract market (DCM)) are subject to appropriate minimum block sizes.

What are the "swap categories" that are being established by the Commission?

For swaps in the interest rate asset class, the rules establish 27 swap categories based on 9 tenor groups and 3 currency categories (super-major currencies, major currencies, and non-major currencies). For swaps in the credit

asset class, the rules establish 18 swap categories based 6 tenor groups and three conventional spread groups (0 to 175 bps, 176 to 350 bps, 351 bps and above). For the FX asset class, the rules establish swap categories based on unique currency combinations. For the other commodity asset class, the rules establish swap categories for: (1) swaps based on contracts listed in appendix B to part 43 of the Commission's regulations; (2) swaps that are economically related to certain futures contracts; and (3) other swaps sharing a common product type, as designated in Appendix D to part 43. All swaps in the equity asset class are grouped into the same category because these swaps are not treated as block trades or large notional off-facility swaps.

Who determines the appropriate minimum block size?

The Commission determines the appropriate minimum block size for all swap categories.

How are the appropriate minimum block sizes calculated?

The final rulemaking implements a two-period, phased-in approach to determining appropriate minimum block sizes.

For interest rate and credit swap categories, minimum block sizes in the initial period are determined using a 50 percent notional amount calculation. In the post-initial period, minimum block sizes are determined using a 67 percent notional amount calculation.

For most swaps in the FX asset class that are economically related to a futures contract, minimum block sizes in the initial period are determined based on the block trade size thresholds set by DCMs. All FX swaps that are not economically related to a futures contract can be treated as block trades or large notional off-facility swaps during the initial period and are subject to a time delay for public dissemination. In the post-initial period, appropriate minimum block sizes for most swaps in the FX asset class will be determined using a 67 percent notional amount calculation.

Swaps in the other commodity asset class are subject to appropriate minimum block sizes during the initial period based on the following:

- For swaps whose underlying asset references or is economically related to one of the futures contracts listed in appendix B to part 43, minimum block sizes in the initial period are determined based on the block sizes set for the related contracts by DCMs.
- For swaps whose underlying asset references or is economically related to one of the futures contracts listed in appendix B to part 43 that is not subject to a DCM block size minimum, treatment as a block trade or large notional off-facility swap is not available.
- For swaps whose underlying asset references or is economically related to one of the futures contracts listed in the Commission's final rulemaking, appropriate minimum block sizes would be determined based on the block sizes for the related contracts set by DCMs.
- All other non-futures related swaps (categorized by product type) would be treated as block trades or large notional off-facility swaps.

In the post-initial period, appropriate minimum block sizes for all swaps in the other commodity asset class would be determined using the 67 percent notional amount calculation.

What are “economically related” swaps?

The final rulemaking defines “economically related” to mean a direct or indirect reference to the same commodity at the same location or locations, or with the same or a substantially similar cash market prices series.

What additional contracts does the Commission list in appendix B of part 43?

For purposes of establishing appropriate minimum block sizes for certain swaps in the other commodity asset class, the final rulemaking adds 13 natural gas and electricity contracts to the existing 29 futures contracts (which includes Brent Crude Oil) in appendix B to part 43 of the Commission’s regulations.

Are swaps in the equity asset class subject to block trade or large notional off-facility swap treatment?

All swaps in the equity swap category (in the equity asset class) do not qualify for treatment as a block trade or large notional off-facility swap and, therefore, are not subject to a time delay for public dissemination.

How will the appropriate minimum block sizes be implemented?

All initial appropriate minimum block sizes (listed by asset class and swap category in appendix F to part 43) would be effective 60 days following the publication in the Federal Register of the final rule. The initial period – which would last until the Commission and SDRs have collected a year of reliable data (April 10, 2014) – would expire following the Commission’s publication of post-initial appropriate minimum block sizes. Post-initial appropriate minimum block sizes would become effective on the first day of the second month following the date of their publication.

How does a phased-in approach to implementing appropriate minimum block sizes benefit market participants?

The Commission anticipates that a two-period approach to implementing appropriate minimum block sizes, in addition to the interim period established by the real-time reporting final rule, will allow market participants to better adjust their swap trading strategies to manage risk, secure new technologies and make necessary arrangements to comply with part 43 of the Commission’s regulations.

How do market participants obtain information about appropriate minimum block sizes?

Appendix F to part 43 lists the initial appropriate minimum block sizes by asset class and swap category. The Commission will publish the post-initial appropriate minimum block sizes on the Commission’s website and would publish updated block sizes thereafter in the same manner no less than once each calendar year.

How do parties to a swap notify of their election for block trade or large notional off-facility swap treatment?

For publicly reportable swap transactions with a notional amount at or above an appropriate minimum block size, the parties to the transaction are required to notify the registered SEF or DCM of its election to have their transaction treated as a block trade. The SEF or DCM would then notify the registered SDR of this election when submitting swap transaction and pricing data.

A reporting party who executes a large notional off-facility swap with a notional amount at or above an appropriate minimum block size is required to notify the applicable registered SDR of its election to have the transaction treated as a large notional off-facility swap.

How are notional cap sizes determined under the proposed rules?

In the initial period, cap sizes are set as the greater of the interim cap sizes set forth under part 43 of the Commission's regulations or the appropriate minimum block size for the respective swap category. If an appropriate minimum block size does not exist, then the cap size will be set at the interim cap size. In the post-initial period, the proposed rules establish a 75 percent notional amount calculation to determine cap sizes for the respective swap categories.

What limits do the proposed rules establish for public dissemination of certain swap transactions in the other commodity asset class with a specific delivery or pricing point?

For swaps that have natural gas or related products as an underlying asset and a specific delivery or pricing point in the United States, SDRs will publicly disseminate a description of the specific delivery or pricing point based on one of the five industry-specific natural gas markets set forth by the Federal Energy Regulatory Commission. For swaps that have petroleum products as an underlying asset and a specific delivery or pricing point in the United States, SDRs will publicly disseminate a description of the specific delivery or pricing point based on one of the seven Petroleum Administration for Defense Districts regions. For swaps that have electricity and sources as an underlying asset and have a specific delivery or pricing point in the United States, SDRs will publicly disseminate a description of the specific delivery or pricing point based on a description of one of the North American Electric Reliability Corporation regions for publicly disseminating delivery or pricing points for electricity swaps.