

CLIENT UPDATE

SWAPS SUBJECT TO MANDATORY EXCHANGE-TRADING: UPDATE I

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We are providing this update to inform you that you may have to execute certain swaps on an exchange or trading platform starting on February 15 instead of entering into such swaps over the counter, and that additional swaps will be subject to this mandatory exchange-trading requirement beginning on February 21 and 26.¹ The Dodd-Frank Wall Street Reform and Consumer Protection Act requires that swaps subject to the mandatory clearing requirement must be executed on a designated contract market (“DCM”) or a swap execution facility (“SEF”) if a DCM or SEF “makes the swap available to trade.”

As a preliminary matter, a DCM or SEF must submit to the Commodity Futures Trading Commission (the “CFTC”) a determination that one or more swaps (or groups, categories, types or classes of swaps) are available to trade (a “MAT determination”) and this MAT determination must either be approved by the CFTC or self-certified by the DCM or SEF. Once so approved or self-certified, each such swap (or group, category, type or class of swaps) will be deemed available to trade on all DCMs and/or SEFs offering such swap for trading, and market participants will be obligated to

¹ For information on which types of entities are subject to the trade execution requirement, see our client memorandum, “Mandatory Exchange-Trading for Swaps” (Dec. 12, 2014), available at <http://www.debevoise.com/newsseventspubs/publications/detail.aspx?id=d494e9cb-5efb-4321-8759-7719c02ea690>

execute any such swap (or group, category, type or class of swaps) on one of such DCMs or SEFs.²

Five SEFs³ have submitted to the Commodity Futures Trading Commission (the “CFTC”) a determination that certain types of swaps are available to trade (a “MAT determination”). Four of those five MAT determinations have been deemed certified and the swaps covered by such determinations must be executed on a DCM or SEF beginning on February 15, 21 or 26 (depending on the particular type of swap). The fifth MAT determination—that of Bloomberg SEF LLC—will, absent any further action by the CFTC, be deemed certified in early March and the swaps covered by such determination will be required to be executed on a SEF or DCM beginning in early April.⁴

The fixed-to-floating interest rate swaps covered by the Javelin MAT determination⁵ (set forth in the first three columns of the following table) must be executed on a SEF or DCM beginning on February 15. In addition, the fixed-to-floating interest rate swaps covered by the trueEX MAT determination⁶ (set forth in bold text in the following table) must be executed on a SEF or DCM beginning on February 21. Finally, the fixed-to-floating interest rate swaps covered by the TW SEF MAT determination⁷ (set forth in bordered text in the following table) must be executed on a SEF or DCM beginning on February 26.

² For additional information on SEFs and DCMs generally, as well as the mandatory trade execution requirement and MAT determinations in particular, see the client memorandum referred to in footnote 1 above.

³ MAT determinations have been self-certified by Javelin SEF, LLC; trueEX, LLC; TW SEF LLC; MarketAxess SEF Corporation; and Bloomberg SEF LLC. While trueEX operates as both a DCM and a SEF, it self certified its MAT determination in its capacity as a DCM, rather than as a SEF. However, since only eligible contract participants will be permitted to enter into trades subject to the MAT determination that are executed on trueEX’s platform and since only futures commission merchants will be permitted to intermediate such trades on behalf of another entity, all of the statements made in this client memorandum apply equally to trueEX’s MAT determination and the other four MAT determinations, regardless of the fact that trueEX submitted that determination as a DCM.

⁴ We will provide you with an additional update regarding mandatory exchange-trading of the swaps covered by Bloomberg’s MAT determination once that determination is deemed certified.

⁵ The Javelin MAT determination is available at
<http://www.cftc.gov/stellent/groups/public/@rulesandproducts/documents/ifdocs/rul010814javsef001.pdf>

⁶ The trueEX MAT determination is available at:
<http://www.cftc.gov/stellent/groups/public/@otherif/documents/ifdocs/trueexsub201314mat.pdf>

⁷ The TW SEF MAT determination is available at:
<http://www.cftc.gov/stellent/groups/public/@otherif/documents/ifdocs/twsefamendmatltr112913.pdf>. Note that TW SEF submitted an amendment to this MAT determination on January 26, 2014, clarifying that certain types of swaps that were covered by TW SEF’s MAT determination (submitted November 29, 2013) have not been made available to trade. Since no MAT determination has been made as to these swaps, such swaps will not be subject to mandatory exchange trading in February. The January 26 amendment to TW SEF’s MAT determination is available at:
<http://www.cftc.gov/stellent/groups/public/@otherif/documents/ifdocs/twsefamendmatl012614.pdf>

<i>Currency</i>	U.S. Dollar (USD)	U.S. Dollar (USD)	Euro (EUR)	U.S. Dollar (USD)	Sterling (GBP)
<i>Floating Rate Indexes</i>	USD LIBOR	USB LIBOR	EURIBOR	USD LIBOR	GBP LIBOR
<i>Trade Start Type</i>	Spot Starting (T + 2)	IMM Start Date (next two quarterly IMM start dates)	Spot Starting (T + 2)	IMM Start Date (next two quarterly IMM start dates)	Spot Starting (T+0)
<i>Optionality</i>	No	No	No	No	No
<i>Fixed Leg:</i>					
<i>Payment Frequency</i>	Semi-Annual, Annual	Semi-Annual, Annual	Semi-Annual, Annual	Semi-Annual	Quarterly, Semi-Annual
<i>Day Count Convention</i>	30/360, Actual/360	30/360, Actual/360	30/360, Actual/360	30/360	Actual/365F
<i>Floating Leg:</i>					
<i>Reset Frequency</i>	Quarterly, Semi-Annual	Quarterly, Semi-Annual	Quarterly, Semi-Annual	Quarterly	Quarterly, Semi-Annual
<i>Day Count Convention</i>	Actual/360	Actual/360	Actual/360	Actual/360	Actual/365F
<i>Dual Currencies</i>	No	No	No	No	No
<i>Notional</i>	Fixed Notional	Fixed Notional	Fixed Notional	Fixed Notional	Fixed Notional
<i>Fixed Rate</i>	Par	Par	Par	Standard Coupon (i.e., the then-current fixed coupon rate for MAC contracts)	Par

<i>Tenor⁸</i>	2, 3, 4 , 5, 6 , 7, 10, 12, 15, 20, 30 years	2, 3, 4 , 5, 6 , 7, 10, 12, 15, 20, 30 years	2, 3, 4 , 5, 6 , 7, 10, 15, 20, 30 years	1, 2, 3, 4 5, 7, 10, 15, 20, 30 years	2, 3, 4, 5, 6, 7, 10, 15, 20, 30 years
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In addition to interest rate swaps, the index credit default swaps covered by the TW SEF and the MarketAxess⁹ MAT determinations (set forth in the following table) must be executed on a SEF or DCM beginning on February 26:¹⁰

<i>Reference Entities</i>	Corporate	Corporate
<i>Region</i>	North America	Europe
<i>Indices</i>	CDX.NA.IG CDX.NA.HY	iTraxx Europe iTraxx Europe Crossover
<i>Tenor</i>	CDX.NA.IG 5Y CDX.NA.HY 5Y	iTraxx Europe 5Y iTraxx Europe Crossover 5Y
<i>Applicable Series</i>	At any time, the then-current on-the-run series and the preceding series that was replaced by the current one	

This mandatory exchange-trading requirement will apply to all swaps covered by each MAT determination on or after the relevant compliance date regardless of whether the swaps are listed or offered by the SEF or DCM that made the MAT determination for the relevant swaps or by another SEF or DCM. If a swap is subject to the mandatory

⁸ USD-denominated par coupon swaps with a tenor of 4 or 6 years that are made available to trade are limited to the 3M USD LIBOR floating rate index; Quarterly Reset Frequency; and the following fixed leg conventions: (1) Semi-Annual and 30/360; or (2) Annual and Actual/360. Euro-denominated, par coupon swaps with a tenor of 4 or 6 years that are made available to trade are limited to the following fixed leg conventions: Annual and 30/360.

⁹ The MarketAxess MAT determination is available at:
<http://www.cftc.gov/stellent/groups/public/@otherif/documents/ifdocs/marketaxessmatsub103013.pdf>

¹⁰ The CDS contracts included in the MarketAxess MAT determination were previously determined to be made available to trade as a result of the earlier MAT determination submitted by TW SEF. Therefore, while the MarketAxess MAT determination was not deemed certified until January 30, the CDS contracts subject to that MAT determination will be subject to mandatory exchange-trading beginning on February 26 (*i.e.*, 30 days after TW SEF's MAT submission was deemed certified).

exchange-trading requirement, it may be executed on any SEF or DCM that offers that swap for trading.

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Please do not hesitate to contact us with any questions.

January 31, 2014