



## U.S. COMMODITY FUTURES TRADING COMMISSION

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### Division of Market Oversight

CFTC Letter No. 16-76  
No-Action  
November 1, 2016  
Division of Market Oversight

#### **Re: Extension of No-Action Relief from the Commodity Exchange Act Sections 2(h)(8) and 5(d)(9) and from Commission Regulation § 37.9 and No-Action Relief for Swap Execution Facilities from Commission Regulation § 37.3(a)(2) for Swaps Executed as Part of Certain Package Transactions**

The Division of Market Oversight (“Division” or “DMO”) of the Commodity Futures Trading Commission (“Commission”) herein extends the existing no-action relief,<sup>1</sup> as set forth in CFTC Letter 15-55 (“NAL 15-55”), from requirements in sections 2(h)(8) and 5(d)(9) of the Commodity Exchange Act (“CEA” or “Act”) and from requirements in Commission Regulations § 37.3(a)(2) and § 37.9 for swaps executed as part of certain package transactions.<sup>2</sup>

As set forth in NAL 15-55 and also displayed in Appendix A to this letter, the categories of package transactions for which the Division is extending no-action relief are those in which at least one individual swap component is made available to trade (“MAT”) and therefore subject to the trade execution requirement; and one of the following applies: (1) at least one individual component is a bond issued and sold in the primary market (“MAT/New Issuance Bond Package Transactions”);<sup>3</sup> (2) all other components are contracts for the purchase or sale of a commodity for

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<sup>1</sup> This letter responds to requests received from the International Swaps and Derivatives Association, Inc. (“ISDA”) and the Wholesale Markets Brokers’ Association, Americas (“WMBAA”) that the Division of Market Oversight (“DMO” or “Division”) extend the relief provided to their respective members and other industry participants under Commodity Futures Trading Commission (“CFTC” or “Commission”) Letter No. 15-55. See letters from Bella Rozenberg, ISDA, to Vincent A. McGonagle, Director, DMO, dated September 20, 2016 and Scott Fitzpatrick, WMBAA, to Vincent A. McGonagle, Director, DMO, dated October 14, 2016, respectively.

<sup>2</sup> The Division previously provided no-action relief for certain package transactions in CFTC Letter 14-12, CFTC Letter 14-62, CFTC Letter 14-137, and, most recently, CFTC Letter 15-55. For purposes of the relief granted in this letter, a “package transaction” is a transaction involving two or more instruments: (1) that is executed between two or more counterparties; (2) that is priced or quoted as one economic transaction with simultaneous or near simultaneous execution of all components; (3) that has at least one component that is a swap that is made available to trade and therefore is subject to the CEA section 2(h)(8) trade execution requirement; and (4) where the execution of each component is contingent upon the execution of all other components.

<sup>3</sup> This category does not include package transactions where at least one individual swap component is subject to the trade execution requirement and at least one individual component is a bond transaction that occurs in the secondary market; such transactions would qualify as MAT/Non-Swap Instruments Package Transactions as defined herein. The Division understands that a bond issued and sold in the primary market that may constitute part of a package transaction is a “security,” as defined in section 2(a)(1) of the Securities Act of 1933 or section 3(a)(10) of the Securities Exchange Act of 1934. To the extent that SEFs and DCMs may be facilitating package transactions on their respective trading systems, facilities, or platforms that involve a security, or any component

future delivery, *i.e.*, futures contracts (“MAT/Futures Package Transactions”); (3) at least one individual swap component is subject to the Commission’s exclusive jurisdiction, but not subject to the clearing requirement under CEA section 2(h)(1)(A) and § 50.4 of the Commission’s regulations (“MAT/Non-MAT Uncleared Package Transactions”); (4) at least one individual component is not a swap (“MAT/Non-Swap Instruments Package Transactions”)—this category specifically excludes U.S. Dollar Swap Spreads; MAT/Futures Package Transactions, MAT/Agency MBS Package Transactions; and MAT/New Issuance Bond Package Transactions;<sup>4</sup> or (5) at least one individual swap component is a swap over which the Commission does not have exclusive jurisdiction (“MAT/Non-CFTC Swap Package Transactions”).<sup>5</sup>

## I. Extension of No-Action Relief

Since the issuance of NAL 15-55, the Division has continued to assess how to enable SEFs and DCMs to facilitate trading of certain package transactions in a manner that balances the utility of package transactions against the policy goals of the trade execution requirement. This assessment, as informed by requests for extension of relief from ISDA and WMBAA,<sup>6</sup> indicates that trading certain categories of package transactions on a SEF or DCM, in a manner that is fully compliant with the CEA and the Commission’s regulations, still presents challenges. Therefore, the Division is extending the relief provided in NAL 15-55 to enable market participants to continue to execute certain package transactions.<sup>7</sup> The extension of time-limited relief will enable the Division to consider potential permanent solutions for these categories of package transactions.

The following time-limited no-action relief is provided:

### 1) Relief from CEA section 2(h)(8)

As described in NAL 15-55, for MAT/New Issuance Bond Package Transactions and MAT/Futures Package Transactions:

- a) The Division is granting time-limited no-action relief to: (1) entities or counterparties executing the swap components of these categories of package transactions from the requirements of CEA section 2(h)(8) until 11:59 p.m. (Eastern time) **November 15, 2017**.

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agreement, contract, or transaction over which the Commission does not have exclusive jurisdiction, the Division does not opine on whether such activity complies with other applicable law and regulations. The no-action positions taken herein represent only the positions of the Division and do not bind the Commission, other Commission staff, or any other Federal agency.

<sup>4</sup> The Division understands that non-swap instruments that may constitute part of a package transaction include a “security.” See supra note 3. See NAL 14-137 for the definitions of U.S. Dollar Spreads and MAT/Agency MBS Package Transactions.

<sup>5</sup> A “mixed swap,” as defined in section 1a(47)(D) of the CEA, is an example of a swap over which the CFTC may share jurisdiction with the U.S. Securities and Exchange Commission. See Further Definition of “Swap,” “Security-Based Swap,” and “Security-Based Swap Agreement”; Mixed Swaps; Security-Based Swap Agreement Recordkeeping, 77 Fed. Reg. 48208, 48291-93 (Aug. 13, 2012). See supra note 3.

<sup>6</sup> See letters from Bella Rozenberg, ISDA, to Vincent A. McGonagle, Director, DMO, dated September 20, 2016 and Scott Fitzpatrick, WMBAA, to Vincent A. McGonagle, Director, DMO, dated October 14, 2016, respectively.

<sup>7</sup> Appendix A is a summary of the no-action relief granted in this letter. The Division notes that where a package transaction may be eligible for relief under more than one of the categories established herein, entities or counterparties may avail themselves of the broadest relief among those categories.

- b) The Division will not recommend that the Commission take enforcement action against any entity or counterparty that executes the swap components of a MAT/New Issuance Bond Package Transaction or MAT/Futures Package Transaction without complying with CEA section 2(h)(8), if such swaps are executed before or at the expiration of the no-action relief.

## 2) Relief from Commission Regulations § 37.3(a)(2) and § 37.9 and CEA section 5(d)(9)

As described in NAL 15-55, for MAT/New Issuance Bond Package Transactions, MAT/Futures Package Transactions, MAT/Non-MAT Uncleared Package Transactions, MAT/Non-Swap Instruments Package Transactions, and MAT/Non-CFTC Swap Package Transactions):

- a) The Division is granting time-limited no-action relief to SEFs and DCMs, with respect to the swap components of these categories of package transactions for which they facilitate trading, from the requirements of § 37.3(a)(2)<sup>8</sup> and § 37.9 of the Commission's regulations, and CEA section 5(d)(9), respectively, until 11:59 p.m. (Eastern time) **November 15, 2017**. During this period of time, SEFs and DCMs may provide a trading system, facility, or platform that facilitates trading of swap components through methods of execution that do not comply with the required methods of execution in § 37.9 of the Commission's regulations or CEA section 5(d)(9), respectively,<sup>9</sup> and entities or counterparties may execute such swap components through any method of execution offered on a SEF or DCM pursuant to no-action relief provided herein.
- b) The Division will not recommend that the Commission take enforcement action against any SEF or DCM that facilitates trading in swap components of these categories of package transactions without complying with § 37.3(a)(2) or § 37.9 of the Commission's regulations, or CEA section 5(d)(9), respectively, if such swaps are executed before or at the expiration of no-action relief.

The Division notes that entities or counterparties must execute the swap components that are subject to the trade execution requirement, pursuant to CEA section 2(h)(8), on a SEF or DCM for the following categories: MAT/Non-MAT Uncleared Package Transactions, MAT/Non-Swap Instruments Package Transactions, and MAT/Non-CFTC Swap Package Transactions.

## II. Conclusion

Industry participants should note that the no-action positions taken herein do not excuse affected persons from compliance with any other applicable requirements of the CEA or the Commission's regulations thereunder.<sup>10</sup> This letter, and the no-action positions taken herein,

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<sup>8</sup> The Division notes that to the extent that such swap components are not executed as part of a package transaction qualifying for relief herein, § 37.3(a)(2) of the Commission's regulations requires SEFs to offer an Order Book functionality as a method of execution for such transactions.

<sup>9</sup> The Division expects that SEFs and DCMs will continue to implement and enforce rules that will allow them to verify that only eligible swap components are executed in reliance on the relief granted in this letter.

<sup>10</sup> The applicable swap reporting requirements are set forth under parts 43, 45, and 50 of the Commission's regulations. The applicable clearing requirements are set forth under CEA section 2(h)(1) and part 50 of the Commission's regulations. The applicable pre-execution credit check requirements are set forth under § 1.73 of the

represent the positions of the Division only, and do not necessarily represent the positions of, or bind, the Commission, any other division or office of the Commission's staff, or any other Federal agency. As with all no-action letters, the Division retains the authority to condition further, modify, suspend, terminate or otherwise restrict the terms of the no-action relief provided herein, in its discretion.

If you have any questions concerning this correspondence, please contact Nancy Markowitz, Deputy Director, at (202) 418-5453 or nmarkowitz@cftc.gov, Roger Smith, Special Counsel, at (202) 418-5344 or rsmith@cftc.gov, or Matthew Jones, Attorney-Advisor, at (202) 418-6710.

Sincerely,

Vincent A. McGonagle  
Director  
Division of Market Oversight

## **APPENDIX A: SUMMARY OF PACKAGE TRANSACTION RELIEF**

**Note:** This appendix reflects a summary of the relief that the Division of Market Oversight (“Division”) of the Commodity Futures Trading Commission (“Commission”) is granting herein; this summary is intended to be used for reference only and does not represent a grant of any no-action relief from the Commodity Exchange Act or the Commission’s regulations.

Package Transaction Category	Relief Expiration
<p><b>MAT/New Issuance Bond:</b> At least one individual swap component is subject to the trade execution requirement and at least one individual component is a bond issued and sold in the primary market</p>	<p>Relief from CEA section 2(h)(8) until <b>November 15, 2017</b>. Under this relief, the swap components subject to the trade execution requirement are not required to be executed on a SEF or DCM.</p> <p>Relief from Commission Regulation § 37.9 and CEA section 5(d)(9) until <b>November 15, 2017</b>, which permits a SEF or DCM to offer any method of execution for the swap components.</p> <p>Relief from Commission Regulation § 37.3(a)(2) until <b>November 15, 2017</b>, which permits SEFs to not offer an Order Book as a minimum trading functionality for the swap components.</p>
<p><b>MAT/Futures:</b> At least one individual swap component is subject to the trade execution requirement and all other components are contracts for the purchase or sale of a commodity for future delivery, <i>i.e.</i>, futures contracts. This category may include:</p> <ul style="list-style-type: none"> <li>• MAT swap v. Treasury futures</li> <li>• MAT swap v. Eurodollar futures</li> </ul>	<p>Relief from CEA section 2(h)(8) until <b>November 15, 2017</b>. Under this relief, the swap components subject to the trade execution requirement are not required to be executed on a SEF or DCM.</p> <p>Relief from Commission Regulation § 37.9 and CEA section 5(d)(9) until <b>November 15, 2017</b>, which permits a SEF or DCM to offer any method of execution for the swap components.</p> <p>Relief from Commission Regulation § 37.3(a)(2) until <b>November 15, 2017</b>, which permits SEFs to not offer an Order Book as a minimum trading functionality for the swap components.</p>
<p><b>MAT/Non-MAT (Uncleared):</b> At least one of the swap components is subject to the trade execution requirement and at least one of the components is a CFTC swap that is not subject to the clearing requirement. This category may include:</p> <ul style="list-style-type: none"> <li>• MAT swap v. swaption</li> <li>• MAT swap v. uncleared credit default swap</li> </ul>	<p>Relief from Commission Regulation § 37.9 and CEA section 5(d)(9) until <b>November 15, 2017</b>, which permits a SEF or DCM to offer any method of execution for the swap components.</p> <p>Relief from Commission Regulation § 37.3(a)(2) until <b>November 15, 2017</b>, which permits SEFs to not offer an Order Book as a minimum trading functionality for the swap components.</p>
<p><b>MAT/Non-Swap Instruments:</b> At least one of the swap components is subject to the trade execution requirement and at least one of the components is not a swap. This category excludes U.S. Dollar Swap Spreads, MAT/Futures, MAT/Agency MBS, and MAT/New Issuance Bond. This category may include:</p>	<p>Relief from Commission Regulation § 37.9 and CEA section 5(d)(9) until <b>November 15, 2017</b>, which permits a SEF or DCM to offer any method of execution for the swap components.</p> <p>Relief from Commission Regulation § 37.3(a)(2) until <b>November 15, 2017</b>, which permits SEFs to not offer an Order Book as a minimum trading functionality for the</p>

<ul style="list-style-type: none"> <li>• MAT swap v. single-name credit default swap</li> <li>• MAT swap v. bond (secondary market transaction)</li> </ul>	<p>swap components.</p>
<p><b>MAT/Non-CFTC Swap:</b> At least one of the swap components is subject to the trade execution requirement and at least one of the components is a swap over which the CFTC does not have exclusive jurisdiction (<u>e.g.</u>, a mixed swap)</p>	<p>Relief from Commission Regulation § 37.9 and CEA section 5(d)(9) until <b>November 15, 2017</b>, which permits a SEF or DCM to offer any method of execution for the swap components.</p> <p>Relief from Commission Regulation § 37.3(a)(2) until <b>November 15, 2017</b>, which permits SEFs to not offer an Order Book as a minimum trading functionality for the swap components.</p>