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ISDA Webinar on Swaps Straight Through Processing (“STP”)

July 1, 2016

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STP Requirement

- From August 1, the US Commodity Futures Trading Commission (“CFTC”) will require all swaps intended for clearing (whether mandatory or voluntary) that are executed on a swap execution facility (“SEF”) to be sent to a derivatives clearing organisation (“DCO”) within 10 minutes

Background

- CFTC Staff Guidance on Swaps Straight Through Processing - September 26, 2013
 - allows the use of affirmation hubs
 - requires trades to be routed “as quickly after execution as would be technologically practicable if fully automated systems were used (“AQATP”)”
 - notes that use of a third-party affirmation hub does not excuse compliance with the AQATP standard

ISDA STP plan

- In response to CFTC concerns that the industry was not in compliance with their expectation of the AQATP standard, ISDA filed a proposed phased plan in July 2015 for reducing trade affirmation times for certain interest rate swap contracts to a maximum of 10 minutes after execution on a SEF
- A copy of the proposed plan can be found at the following link:
<http://www2.isda.org/functional-areas/infrastructure-management/interest-rates-derivatives/>

CFTC response

- On December 21, 2015, the CFTC responded to ISDA's proposal
- The CFTC advised that the AQATP standard would be considered met if trades are routed to and received by the relevant DCO no more than 10 minutes after execution of the trade on the SEF
- This standard will be applicable effective August 1, 2016
- CFTC staff acknowledged that if an error is detected it may take longer than 10 minutes to complete correction of the error
- The CFTC response applies to all swaps executed on a SEF irrespective of asset class

ISDA Best Practice Principles

- To facilitate compliance with the 10 minute execution to clearing time frame, ISDA formed an STP working group
- ISDA staff, in consultation with this working group, have developed a best practices document that sets out general principles for compliance with the CFTC staff's STP requirement
- The document is available on ISDA's website at the following link:
<http://www2.isda.org/functional-areas/infrastructure-management/interest-rates-derivatives/>

Next steps

- Firms should take steps to ensure compliance as a matter of priority
- Firms should be looking to streamline internal processes in order to minimise the time taken to complete their part of the process
- Firms should also work with the other parties involved in the execution to clearing process to ensure that overall compliance is achieved
- Any firms who are interested in participating in the ISDA working group on STP should contact mhurd@isda.org