

will not “act as an advisor to a Special Entity” if: (1) The swap dealer does not express an opinion as to whether the Special Entity should enter into a recommended swap or swap trading strategy that is tailored to the particular needs or characteristics of the Special Entity; (2) the Special Entity represents in writing, in accordance with § 23.402(d), that it will not rely on the swap dealer’s recommendations and will rely on advice from a qualified independent representative within the meaning of § 23.450; and (3) the swap dealer discloses that it is not undertaking to act in the best interests of the Special Entity.

A swap dealer that elects to communicate within the safe harbor to avoid triggering the “best interests” duty must appropriately manage its communications. To clarify the type of communications that they will make under the safe harbor, the Commission expects that swap dealers may specifically represent that they will not express an opinion as to whether the Special Entity should enter into a recommended swap or trading strategy, and that for such advice the Special Entity should consult its own advisor. Nothing in the final rule would preclude such a representation from being included in counterparty relationship documentation. However, such a representation would not act as a safe harbor under the rule where, contrary to the representation, the swap dealer does express an opinion to the Special Entity as to whether it should enter into a recommended swap or trading strategy.

If a swap dealer complies with the terms of the safe harbor, the following types of communications would not be subject to the “best interests” duty:<sup>2</sup> (1) Providing information that is general transaction, financial, educational, or market information; (2) offering a swap or trading strategy involving a swap, including swaps that are tailored to the needs or characteristics of a Special Entity; (3) providing a term sheet, including terms for swaps that are tailored to the needs or characteristics of a Special Entity; (4) responding to a request for a quote from a Special Entity; (5) providing trading ideas for swaps or swap trading strategies, including swaps that are tailored to the needs or characteristics of a Special Entity; and (6)

<sup>2</sup>Communications on the list that are not within the meaning of the term “acts as an advisor to a Special Entity” are outside the requirements of § 23.440. By including such communications on the list, the Commission does not intend to suggest that they are “recommendations.” Thus, a swap dealer that does not “act as an advisor to a Special Entity” within the meaning of § 23.440(a) is not required to comply with the safe harbor to avoid the “best interests” duty with respect to its communications.

providing marketing materials upon request or on an unsolicited basis about swaps or swap trading strategies, including swaps that are tailored to the needs or characteristics of a Special Entity. This list of communications is not exclusive and should not create a negative implication that other types of communications are subject to a “best interests” duty.

The safe harbor in § 23.440(b)(2) allows a wide range of communications and interactions between swap dealers and Special Entities without invoking the “best interests” duty, including discussions of the advantages or disadvantages of different swaps or trading strategies. The Commission notes, however, that depending on the facts and circumstances, some of the examples on the list could be “recommendations” that would trigger a suitability obligation under § 23.434. However, the Commission has determined that such activities would not, by themselves, prompt the “best interests” duty in § 23.440, provided that the parties comply with the other requirements of § 23.440(b)(2). All of the swap dealer’s communications, however, must be made in a fair and balanced manner based on principles of fair dealing and good faith in compliance with § 23.433.

Swap dealers engage in a wide variety of communications with counterparties in the normal course of business, including but not limited to the six types of communications listed above. Whether any particular communication will be deemed to be a “recommendation” within the meaning of §§ 23.434 or 23.440 will depend on the facts and circumstances of the particular communication considered in light of the guidance in this appendix with respect to the meaning of the term “recommendation.” Swap dealers that choose to manage their communications to comply with the safe harbors provided in §§ 23.434 and 23.440 will be able to limit the duty they owe to counterparties, including Special Entities, provided that the parties exchange the appropriate representations.

## Subpart I—Swap Documentation

SOURCE: 77 FR 21307, Apr. 9, 2012, unless otherwise noted.

### § 23.500 Definitions.

For purposes of this subpart I, the following terms shall be defined as provided.

(a) *Acknowledgment* means a written or electronic record of all of the terms of a swap signed and sent by one counterparty to the other.

(b) *Bilateral portfolio compression exercise* means an exercise in which two swap counterparties wholly terminate or change the notional value of some or all of the swaps submitted by the counterparties for inclusion in the portfolio compression exercise and, depending on the methodology employed, replace the terminated swaps with other swaps whose combined notional value (or some other measure of risk) is less than the combined notional value (or some other measure of risk) of the terminated swaps in the exercise.

(c) *Confirmation* means the consummation (electronically or otherwise) of legally binding documentation (electronic or otherwise) that memorializes the agreement of the counterparties to all of the terms of a swap transaction. A confirmation must be in writing (whether electronic or otherwise) and must legally supersede any previous agreement (electronically or otherwise). A confirmation is created when an acknowledgment is manually, electronically, or by some other legally equivalent means, signed by the receiving counterparty.

(d) *Execution* means, with respect to a swap transaction, an agreement by the counterparties (whether orally, in writing, electronically, or otherwise) to the terms of the swap transaction that legally binds the counterparties to such terms under applicable law.

(e) *Financial entity* means a counterparty that is not a swap dealer or a major swap participant and that is one of the following:

(1) A commodity pool as defined in Section 1a(5) of the Act;

(2) A private fund as defined in Section 202(a) of the Investment Advisors Act of 1940;

(3) An employee benefit plan as defined in paragraphs (3) and (32) of section 3 of the Employee Retirement Income and Security Act of 1974;

(4) A person predominantly engaged in activities that are in the business of banking, or in activities that are financial in nature as defined in Section 4(k) of the Bank Holding Company Act of 1956; and

(5) A security-based swap dealer or a major security-based swap participant.

(f) *Fully offsetting swaps* means swaps of equivalent terms where no net cash flow would be owed to either counterparty after the offset of payment obligations thereunder.

(g) *Material terms* means the minimum primary economic terms (as defined in appendix 1 of part 45 of this chapter) of a swap other than the following:

(1) An indication of whether the reporting counterparty is a swap dealer with respect to the swap;

(2) An indication of whether the reporting party is a major swap participant with respect to the swap;

(3) If the reporting counterparty is not a swap dealer or a major swap participant with respect to the swap, an indication of whether the reporting counterparty is a financial entity as defined in section 2(h)(7)(c) of the Act;

(4) An indication of whether the reporting counterparty is a U.S. person;

(5) An indication that the swap will be allocated;

(6) If the swap will be allocated, or is a post-allocation swap, the legal entity identifier of the agent;

(7) An indication of whether the swap is a post-allocation swap;

(8) If the swap is a post-allocation swap, the unique swap identifier of the original transaction between the reporting counterparty and the agent;

(9) An indication of whether the non-reporting counterparty is a swap dealer with respect to the swap;

(10) An indication of whether the non-reporting counterparty is a major swap participant with respect to the swap;

(11) If the non-reporting counterparty is not a swap dealer or a major swap participant with respect to the swap, an indication of whether the reporting counterparty is a financial entity as defined in section 2(h)(7)(c) of the Act;

(12) An indication of whether the non-reporting counterparty is a U.S. person;

(13) An indication that the swap is a multi-asset swap;

(14) For a multi-asset swap, an indication of the primary asset class;

(15) For a multi-asset swap, an indication of the secondary asset class(es);

(16) An indication that the swap is a mixed swap;

## Commodity Futures Trading Commission

## § 23.501

(17) For a mixed swap reported to two non-dually-registered swap data repositories, the identity of the other swap data repository (if any to which the swap is or will be reported);

(18) Block trade indicator;

(19) Execution timestamp;

(20) Timestamp for submission to swap data repository;

(21) Clearing indicator;

(22) Clearing venue;

(23) If the swap will not be cleared, an indication of whether the clearing requirement exception in section 2(h)(7) of the Act was elected; and

(24) The identity of the counterparty electing the clearing requirement exception in section 2(h)(7) of the Act.

(h) *Multilateral portfolio compression exercise* means an exercise in which multiple swap counterparties wholly terminate or change the notional value of some or all of the swaps submitted by the counterparties for inclusion in the portfolio compression exercise and, depending on the methodology employed, replace the terminated swaps with other swaps whose combined notional value (or some other measure of risk) is less than the combined notional value (or some other measure of risk) of the terminated swaps in the compression exercise.

(i) *Portfolio reconciliation* means any process by which the two parties to one or more swaps:

(1) Exchange the material terms of all swaps in the swap portfolio between the counterparties;

(2) Exchange each counterparty's valuation of each swap in the swap portfolio between the counterparties as of the close of business on the immediately preceding business day; and

(3) Resolve any discrepancy in material terms and valuations.

(j) *Prudential regulator* has the meaning given to the term in section 1a(39) of the Commodity Exchange Act and includes the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Farm Credit Association, and the Federal Housing Finance Agency, as applicable to the swap dealer or major swap participant.

(k) *Swap portfolio* means all swaps currently in effect between a particular

swap dealer or major swap participant and a particular counterparty.

(1) *Swap transaction* means any event that results in a new swap or in a change to the terms of a swap, including execution, termination, assignment, novation, exchange, transfer, amendment, conveyance, or extinguishing of rights or obligations of a swap.

(m) *Valuation* means the current market value or net present value of a swap.

[77 FR 55960, Sept. 11, 2012, as amended at 81 FR 27314, May 6, 2016]

### § 23.501 Swap confirmation.

(a) *Confirmation*. Subject to the compliance schedule in paragraph (c) of this section:

(1) Each swap dealer and major swap participant entering into a swap transaction with a counterparty that is a swap dealer or major swap participant shall execute a confirmation for the swap transaction as soon as technologically practicable, but in any event by the end of first business day following the day of execution.

(2) Each swap dealer and major swap participant entering into a swap transaction with a counterparty that is not a swap dealer or a major swap participant shall send an acknowledgment of such swap transaction as soon as technologically practicable, but in any event by the end of the first business day following the day of execution.

(3) (i) Each swap dealer and major swap participant shall establish, maintain, and follow written policies and procedures reasonably designed to ensure that it executes a confirmation for each swap transaction that it enters into with a counterparty that is a financial entity as soon as technologically practicable, but in any event by the end of the first business day following the day of execution.

(ii) Each swap dealer and major swap participant shall establish, maintain, and follow written policies and procedures reasonably designed to ensure that it executes a confirmation for each swap transaction that it enters into with a counterparty that is not a swap dealer, major swap participant, or a financial entity not later than the