

April 23, 2013

SIFMA Asset Management Group

Market Agreed Coupon Contract for Interest Rate Swaps

Summary

The Asset Management Group (“AMG”) of the Securities Industry and Financial Markets Association (“SIFMA”) supports the development of market agreed coupon (“MAC”) contracts for interest rate swaps (“IRS”), including publication by ISDA of a form of confirmation. SIFMA AMG has provided extensive input in the creation of these contracts.

The objective of this initiative is to develop a *non-mandatory* rolling specification for a set of defined swaps with pre-agreed terms, including start and end dates, fixed rates, and other conventions, that will be available for all swap counterparties to use should they choose to do so. It is the intent and expectation of SIFMA AMG that “MAC” swaps will improve price transparency, promote liquidity, facilitate request-for-quote (RFQ) trading and enhance reset maintenance, line item control, and portfolio compression. The use of “MAC” swaps should be *voluntary*, and should coexist with “par” fixed rate swaps and bespoke, customized swaps, which could continue to be used by parties if they so desire.

AMG supports the introduction of governance committees in the relevant jurisdictions to set coupons for new structures on a rolling basis over time and to reset coupons when the market moves more than 100 basis points up or down. AMG would anticipate that the committees will be comprised of industry participants, including balanced participation of buy-side and sell-side firms.

MAC Terms

The form of confirmation introduced by ISDA reflects the approach that SIFMA AMG contemplated, which entails forward starting swaps that use IMM dates as their start (effective) dates, using standard swap conventions (e.g., fixed semi-bond, floating quarterly, actual/360). It is anticipated that “MAC” contracts will be set for multiple countries; coverage will be adjusted based on user demand. Proposed terms for these “MAC” swaps are as follows:

Initial tenors:

- 1 year
- 2 years
- 3 years
- 5 years



7 years
10 years
15 years
20 years
30 years

Coupons:

Initially set close to par, based on the three- or six-month forward curve, and rounded to the nearest 25 basis point increment

Dates:
(i.e.,

Effective dates will be IMM dates

3rd Wednesday of March, June, September and December) and will list coupons for the next two IMM start dates; additional coupons will be set on a periodic basis by the relevant governing committee(s)

Initial countries covered:

USD, EUR, GBP, JPY, CAD, AUD

In-scope Positions:

New and rolled only*

Start Date:

TBD

*Unlike the “big bang” protocol for credit default swaps (CDS) several years ago, the AMG in no way suggests that existing positions would need to be converted under this proposal.