

Standard Market Agreed Coupon (MAC) Interest Rate Swap Confirmation Introduced by ISDA®

by PLC Finance

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ISDA has published a standardized interest rate swap (IRS) confirmation and terms, referred to as a "market agreed coupon," or MAC. The MAC is designed to standardize IRS terms and facilitate the transition to IRS clearing and exchange trading, as mandated under global derivatives regulations.

On April 23, 2013, ISDA® announced [publication](#) of a standardized form of [transaction confirmation](#), referred to as a "market agreed coupon" or MAC contract, for standardized [interest rate swap](#) (IRS) transactions. The MAC contract (or MAC confirmation) presents market participants with a limited number of popular standard pricing and transaction terms, so that liquid markets develop in these contracts and they are easily and independently transferable. The MAC confirmation is a [transaction confirmation](#) intended to be entered into under an [ISDA Master Agreement](#) between the parties.

The MAC contract is similar to the form of IRS confirmation that is already commonly used by the swaps and derivatives industry, which is based on a template published by ISDA. However, the MAC contract includes standard terms that market participants may choose from.

The MAC contract reflects the approach taken by the [SIFMA](#) Asset Management Group (AMG) in developing a non-mandatory rolling set of defined swaps with common, pre-agreed terms that would be available for all swap counterparties to use. The AMG has stated that the MAC contract should be used voluntarily and should not preclude the existence of other fixed-rate IRS and [bespoke](#) IRS. The pre-agreed MAC terms include:

- **Effective dates.** The effective date options for the MAC contract are the IMM dates, which are the four quarterly dates of each year which most futures contracts and option contracts use as their scheduled maturity date or termination date. The dates are the third Wednesday of March, June, September and December (i.e., between the 15th and 21st, whichever such day is a Wednesday), and IMM stands for the International Monetary Market.
- **Maturities.** Tenor of the contract may be selected from among 1, 2, 3, 5, 7, 10, 15, 20 or 30 years.
- **Fixed rates.** The fixed rate of the IRS must be a multiple of 0.25%. The coupons will be rounded to the nearest 25 basis point increment, which would be the 0.25%.
- **Business day convention.** Market participants may choose from among the standard business day conventions (Following, Modified Following or Preceding).

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The MAC contract is intended to achieve the following for the IRS market:

- Improve price transparency.
- Promote liquidity.
- Facilitate request-for-quote (RFQ) trading.
- Enhance reset maintenance, line item control and portfolio compression.

The AMG has stated that the MAC contract, if used extensively by market participants, is likely to make portfolio compression easier and more efficient over the long term. Portfolio compression is the process by which two or more swap counterparties unwind positions which have the same or similar terms but in the opposite economic direction. Since the MAC swaps will provide a more uniform universe of contract terms, it will be easier for a counterparty to match its swap against the swap of another counterparty, and reduce its number of line items in a portfolio.

The MAC contract and others like it that are likely to follow for other types of OTC swaps could permanently change the OTC derivatives landscape for market participants and their counsel. These contracts standardize agreements that have historically been bespoke and bilaterally negotiated, giving them the characteristics of futures and other exchange traded derivatives.

This could ultimately result in fewer opportunities for counsel to advise clients entering into plain-vanilla swaps. However, while a large percentage of OTC derivatives will be able to be standardized in this manner, whether using the MAC or otherwise, there will likely always remain a need for specially tailored bespoke swaps.

For more on the AMG's MAC swaps initiative, see the AMG's [summary and term sheet](#) and [MAC Rationale](#).

For information on Dodd-Frank swap clearing deadlines and other important Dodd-Frank swap dates, see [Dodd-Frank Swaps Calendar](#).

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