Title: Swap Meet
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Body:
Hello fellow apes,

Just came back from a coffee run, and while waiting, I've decided to DuckDuckGo on SBS.

We know that Futures are currently \~$310T, with $100T in un-cleared futures.

Why Dodd-Frank Act?

>The Commissions are issuing an interpretation to clarify whether particular agreements, contracts or transactions that are subject to Title VII of the Dodd-Frank Act (which are referred to as “Title VII Instruments” in the release) are swaps, security-based swaps or both (i.e., mixed swaps).

TL;DR; Start

EEVERYBODY WANTS TO SEE YOUR SWAPS, KENNY!

[A true retard that reads enters the scene](https://preview.redd.it/gkppwum63ck71.png?width=474&format;=png&auto;=webp&s;=9a5fdfdfbe6abde414256a2fbca24f27a6fd77db)

The whole system is set up on these bad bets. And I want to short it ... with GME.

Kenny likely used Quanto Equity Swaps (QES) that heavily rely on the interest rates. I show studies were done on the quanto and how to hedge them, by establishing a long tenure with quantos performed in non-equity currency.

The longer the tenure of these QES, the lower chance of margin calls, and heavily depend on the Fed's actions.

The only way they do not win is if you hold - not financial advice - and expect to hold longer than needed.

TL;DR; End

After my first post about SBS, I had the same expression that Baum had while stuffing his face with sushi.

Based on Dodd-Frank Act, TRS is: [TRS Definition Document](https://www.cftc.gov/sites/default/files/idc/groups/public/@newsroom/documents/file/fd_factsheet_final.pdf)

* A TRS on a single security, loan, or narrow-based security index generally would be a security-based swap.
* Where counterparties embed interest-rate optionality or a non-securities component into the TRS (e.g.,the price of oil, a currency hedge), it would be a mixed swap.
* Quanto equity swaps that have certain characteristics are security-based swaps.
* TRS based on broad-based security indexes or on two or more loans are swaps subject to CFTCregulation.

And so, we should look a bit deeper into Quanto equity swaps.

Fincyclopedia [defines](https://fincyclopedia.net/derivatives/q/quanto-equity-swap) Quanto swaps as:

>A [swap](https://fincyclopedia.net/derivatives/s/swap) that pays the return on a foreign equity investment (like a share of stock) against payment based on a domestic floating rate. In other words, in this swap one party pays the domestic floating interest rate and receives the foreign stock return denominated in foreign currency but paid in domestic currency.

[WHAT?](https://preview.redd.it/esofefsbybk71.png?width=1280&format;=png&auto;=webp&s;=82188518ca92101863b144d56a89503c76f686bc)

So wait, Quanto Equity Swaps (QES) pays (and therefore losses) happen on the domestic floating rate?

I am starting to believe this is closely tied to the Fed, because they are hesitant to raise rates and have rates be separate from tapering.

[JPow statement that taper != interest hike](https://preview.redd.it/v368ff0egck71.png?width=1200&format;=png&auto;=webp&s;=eae22f79204f8a81475bffcc9b8d71f317eac3d2)

I mean, the Fed seldom speaks truth, and I've pointed to it a few times - including the recent JPow statement.

My belief that the MOASS will actually start in Dec-2021/Jan-2022 at the next cycle, not the current one.

Taken from Criand's DD: https://www.reddit.com/r/Superstonk/comments/p37osl/are_futures_or_swaps_the_secret_sauce_to_price/

[https:\/\/www.cmegroup.com\/trading\/equity-index\/rolldates.html](https://preview.redd.it/qe0r7rwrgck71.png?width=917&format;=png&auto;=webp&s;=ca88235ff0535724836968b70cb318621f8b65a9)

But I digress, so back to Quanto Swaps.

Found some nice articles on the quanto swaps:

https://www.tandfonline.com/doi/abs/10.1080/1350486042000297261

>Pricing formulae show that the value of a quanto equity swap at the start date does not depend on the foreign stock price level, but rather on the term structures of both countries and other parameters. However, the foreign stock price levels do affect the swap value times between two payment dates.

Job reports, inflation targets being risen by the WH, it is unlikely that the interest rate will go up before EoY. Unless there is a significant pressure from a different participant, ending their gamble once and for all.

The Fed will likely taper by the end of September, but the rates will stay the same. With increased pressure, the rates will likely go up just before the start of the roll cycle - end of November.

But that's just my prediction - and will likely be wrong.

https://www.tandfonline.com/doi/abs/10.1080/13504869400000001

Full Text: https://www.researchgate.net/publication/229689489_Valuation_and_Hedging_of_Differential_Swaps

>In the case of diff swaps with the principal denominated in a third-country currency, we ■rst carry out simulations to answer the question on the relationship between the constant margin rate and the tenor. As reported in Table III, we find that the longer the tenor is for the swaps,the lower is the constant margin rate. Again, this characteristic is not universal. In some cases, the constant margin rate is high when the tenor is long. Second, as in the case of diff swaps with a domestic currency, the magnitude of the constant margin rate is generally smaller than the interest rate differential. This again supports the view that one should focus more on the yield curve differential than on the current rate differential when entering into a diff swap deal.

Conclusion:

>Simulation results show that the constant margin rate on average declines with the tenor of the swaps and the magnitude of the constant margin rate is generally smaller than the interest rate differential. Among domestic interest rate, foreign interest rate, third-country interest rate, and exchange rate, we found that correlations associated with the exchange rate play a more important role in pricing diff swaps than correlations among interest rates themselves.

I think I know why Kenny's been travelling:

* He pushed the Quanto swaps to different country's currencies - a Type of ETRS
* Currency evaluation plays significantly into this because the longer the tenor the lower is the constant margin rate
* Until the Fed, and other countries raise their interest rates, the margin calls may not be happening to Kenny
* Margin calls will likely be on the dealers/banks that issued Quanto Swaps
* Banks are likely crying to the Fed not to raise rates

[WHAT DID I JUST FIND?](https://preview.redd.it/esofefsbybk71.png?width=1280&format;=png&auto;=webp&s;=82188518ca92101863b144d56a89503c76f686bc)

Now, to the SBS.

Note, a lot of this is essentially taken from the SEC's own document with some digestion.

https://www.sec.gov/swaps-chart/swaps-chart.shtml

[How the whole SBS works](https://preview.redd.it/hnz2mvivybk71.png?width=940&format;=png&auto;=webp&s;=648cb981788d62a3254e26a3e29680eda247b8ae)

[First Counterparty](https://preview.redd.it/5ngsbu4yybk71.png?width=1346&format;=png&auto;=webp&s;=56947949858b240763cda7e1e1ec60d2ca320510)

[Second Counterparty](https://preview.redd.it/1wxjp4d3zbk71.png?width=1346&format;=png&auto;=webp&s;=d2a4b35f3d6f94bca30e8b5edac2f209a67cb28a)

[SEFs](https://preview.redd.it/kl6m4sd8zbk71.png?width=1346&format;=png&auto;=webp&s;=8633d1172355f0485367816f82f1d6be37559009)

Now, if you notice that the last three images show that the First and Second counterparty do not require registration with the SEC? HUH? WHAT?

There are certain types of SBS that has to be transacted on an SEF or an exchange. However, there are SBS that may go through SEF or an exchange, or just be set to an OTC basis **by negotiation between two counterparties.**

So, what does this all mean: Some securities need to be on the exchange, but others can just be made between buddy hedgies and SEC has 0 visibility on those trades because **THEY ARE NOT REQUIRED TO REGISTER WITH THE SEC.**

[Come on ... seriously SEC?](https://preview.redd.it/o0dgiw230ck71.png?width=1100&format;=png&auto;=webp&s;=ce07167020a4cc72cf5d8f5e13fd706b6c65c4c2)

So, the data report then goes to the Security-Based Swap Data Repositories (SBSDR)

[SBSR](https://preview.redd.it/p2gitma90ck71.png?width=1346&format;=png&auto;=webp&s;=2ef8e1e08052d8d7b632d967df03cda330048941)

Then, the data from these SBSR is released to the public - for the first time

[The Apes](https://preview.redd.it/u5he5tad0ck71.png?width=1346&format;=png&auto;=webp&s;=889ba774db06f6e8265ccf8bb08cf0bfd248b4b2)

Proposed rules on the public information about SBS: https://www.sec.gov/news/press/2010/2010-230.htm

The public report would show the following:

* Specify the categories of information to be reported to a repository in real time and publicly disseminated. Among other things, this would generally include information about the asset class of the security-based swap, information about the underlying security, the price, the notional amount, the time of execution, the effective date and the scheduled termination date.
* Specify certain additional categories of information to be reported to a repository for regulatory purposes, but not publicly disseminated. Among other things, this would generally include the counterparty; the broker, trader and desk ID; the amounts of any up-front payments and description of the terms of the payment streams; the title of any master agreement governing the transaction; and, the data elements needed to determine the market value of the transaction.
* Require the reporting of certain events that result in changes to previously reported information about a

security-based swap transaction.
* Identify which counterparty to a security-based swap transaction would be required to report information to a repository.

Here's where it gets fucky:

>Under the law, the SEC has authority over "security-based swaps," which are broadly defined as swaps based on a single security or loan or a narrow-based group or index of securities or events relating to a single issuer or issuers of securities in a narrow-based security index.
>
>The CFTC has primary regulatory authority over all other swaps. The CFTC and SEC share authority over "**mixed swaps**," which are security-based swaps that also have a commodity component.
>
>The Commodity Futures Trading Commission is proposing similar rules with respect to the reporting and public dissemination of information related to swaps that fall under the CFTC's jurisdiction.
>
>In addition to working closely with the CFTC in preparing this proposal, the SEC and the CFTC held a joint public roundtable to gain further insight into many of the issues addressed in the rules.

Notice, the SEC regulates some of these SBS but CFTC regulates all. As stated in my previous post about SBS, SEC has authority only for the non-Bank SBSDs and has no authority for the banks.

[I ask that myself. Why the fuck does SEC have no jurisdiction on Banks, even after the repeal of the Glass Steagal Act of 1932?](https://preview.redd.it/4jdc026j1ck71.png?width=500&format;=png&auto;=webp&s;=17af3ecb45c19c415d955985c1839df53c25c2d5)

I will let you decide on the why - as it makes little sense to describe other than to hide their transactions from the SEC. And we know how overlegeraged these banks are, especially with the recent Archegos meltdown - where Banks did not report shit to SEC about the SBS.

Clearing happens on the Security Based SWAP Clearing House (SBSCH)

[SBSCH](https://preview.redd.it/dnfdacm22ck71.png?width=1346&format;=png&auto;=webp&s;=9a6f88f69e214d629fe2115e02b5cfb6a77dea1b)

So, what are the reporting rules: https://www.sec.gov/news/press-release/2012-2012-124htm

>The SEC also adopted rules requiring clearing agencies that are designated as "systemically important" to submit advance notice of changes to their rules, procedures, or operations if the changes could materially affect the nature or level of risk at those clearing agencies.

The data we are all looking for are in these clearing houses and needs to be found, and yet it is very easy to do so:

https://www.sec.gov/tm/clearing-agencies

It is a treasure trove above, and needs to be looked into deeper, but we have the same actors being in play:

* [The Depository Trust Company](http://www.dtcc.com/about/businesses-and-subsidiaries/dtc) (“DTC”)
* Order Granting DTC Full Registration, Release 34-20221
* [National Securities Clearing Corporation](http://www.dtcc.com/about/businesses-and-subsidiaries/nscc)

("NSCC")
* Order Granting NSCC Full Registration, [Release 34-20221](https://www.sec.gov/rules/other/34-20221.pdf)
* [Fixed Income Clearing Corporation](http://www.dtcc.com/about/businesses-and-subsidiaries/ficc)("FICC")
* Order Granting FICC Permanent Registration, [Release 34-69838](https://www.gpo.gov/fdsys/pkg/FR-2013-06-28/pdf/2013-15509.pdf)
* [The Options Clearing Corporation](https://www.theocc.com/) ("OCC")
* Order Granting OCC Full Registration, [Release 34-20221](https://www.sec.gov/rules/other/34-20221.pdf)
* [ICE Clear Credit LLC](https://www.theice.com/clear-credit) ("ICC") (successor in name to ICE U.S. Trust LLC)
* Deemed registered as a clearing agency on July 16, 2011, pursuant to the Dodd-Frank Act. [PL 111-203](https://www.gpo.gov/fdsys/pkg/PLAW-111publ203/pdf/PLAW-111publ203.pdf)
* [ICE Clear Europe Limited](https://www.theice.com/clear-europe) ("ICEEU")
* Deemed registered as a clearing agency on July 16, 2011, pursuant to the Dodd-Frank Act. [PL 111-203](https://www.gpo.gov/fdsys/pkg/PLAW-111publ203/pdf/PLAW-111publ203.pdf)
* [LCH SA](https://www.lch.com/about-us/our-clearing-houses) ("LCH SA")
* Order Approving Registration and Exemption, [Release 34-79707](https://www.gpo.gov/fdsys/pkg/FR-2017-01-05/pdf/2016-31940.pdf)

So, what about the initial margin requirements that are about to hit the spot.

Well, we know there are about 3,500 NSCC participants out there that will require initial margin: https://www.dtcc.com/client-center/nscc-directories

However, we have 0 visibility on who the fuck participates in the Swaps because **THEY DO NO NEED TO REGISTER WITH THE SEC!**

Further, I decided to look into the law about the margin requirements: https://www.law.cornell.edu/cfr/text/17/240.18a-3

Dealers

* (c)(1)(i) Must calculate the amount of exposure and the initial margin for each account as of the close of each business day
* (c)(1)(ii) Must collect from the counterparty collateral in an amount equal to the current exposure that the SBS dealer has the counterparty to

Delivery of Collateral:

* **Exceptions for collection of collateral**
* Commercial End Users
* Counterparties that are financial market intermediaries
* Counterparties that use third-party custodians
* Security-based swap legacy accounts
* Bank for International Settlements, European Stability Mechanism, and Multilateral development banks
* Sovereign Entities
* Affiliates

Collection of Initial Margin: These fuckers can decide not to collect Initial Margin between all the parties.

The whole setup is done so these degenerate gamblers are allowed to continue to grow into bigger degenerates.

https://www.investopedia.com/articles/investing/052915/different-types-swaps.asp

Swap contracts can be easily customized to meet the needs of all parties. They offer win-win agreements for participants, including intermediaries like banks that facilitate the transactions. Even so, participants should be aware of potential pitfalls because these contracts are executed over the counter without regulations.

The only way they win, is if you don't hold.