

**MEMO# 28511**

November 6, 2014

## **CFTC Proposes Revisions to Residual Interest Deadline**

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TO: DERIVATIVES MARKETS ADVISORY COMMITTEE No. 74-14 RE: CFTC PROPOSES REVISIONS TO RESIDUAL INTEREST DEADLINE

On November 3, 2014, the Commodity Futures Trading Commission (“CFTC”) proposed to revise the deadline in Rule 1.22 by which a futures commission merchant (“FCM”) must maintain its own capital (“Residual Interest”) in customer segregated accounts in an amount equal to or greater than its customers’ aggregate undermargined amounts. [\[1\]](#) Last year, the CFTC amended Rule 1.22 to enhance the safety of funds deposited by customers with FCMs as margin for futures transactions. [\[2\]](#) Comments on the Residual Interest Proposal are due 60 days after publication in the Federal Register.

Under amended Rule 1.22, if an FCM is required to increase its Residual Interest as a result of customer undermargined accounts, the FCM would be required to deposit additional funds into the customer segregated accounts by the specified Residual Interest deadline. Beginning November 14, 2014, the initial Residual Interest deadline will be 6:00 p.m. ET on the date of settlement. The CFTC staff is required to publish by May 16, 2016 a report for public comment addressing the practicability of moving the 6:00 p.m. deadline to the time of settlement or to some other time of day. Within nine months of the report, the Commission may terminate the phase-in period or determine that it is necessary or appropriate in the public interest to propose through a separate rulemaking a different Residual Interest deadline. Absent CFTC action, the phase-in period will terminate on December 31, 2018 and the Residual Interest deadline will change to the time of settlement on the settlement date.

In the Residual Interest Proposal, the CFTC is proposing to revise Rule 1.22 to remove the automatic termination of the phase-in period and provide that the Residual Interest deadline would remain at 6:00 p.m. ET unless the CFTC takes further action by publication of a new rule. The CFTC believes the Residual Interest Proposal will afford it the opportunity to fully and carefully consider the views of FCM customers as well as the CFTC staff report on whether to accelerate the deadline without the constraints of an established regulatory deadline for Commission action. The Residual Interest Proposal does not alter, however, the requirement in Rule 1.22(c)(3)(i) that, starting on November 14, 2014, all FCMs will be required to maintain the requisite Residual Interest in customer accounts by

no later than 6:00 p.m. ET on the settlement date.

Jennifer S. Choi  
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**endnotes**

[1] Residual Interest Deadline for Futures Commission Merchants (Nov. 3, 2014), available at <http://www.cftc.gov/ucm/groups/public/@newsroom/documents/file/federalregister110314.pdf> (“Residual Interest Proposal”)

[2] For a summary of the amendments to Rule 1.22, see ICI Memorandum No. 27695 (Nov. 12, 2013), available at [http://www.ici.org/my\\_ici/memorandum/memo27695](http://www.ici.org/my_ici/memorandum/memo27695).

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