

**MEMO# 32595**

July 13, 2020

# **ICI Files Comment Letter with CFTC on Proposed Amendments to Part 190 Bankruptcy Regulations**

[32595]

July 13, 2020 TO: ICI Members

Derivatives Markets Advisory Committee SUBJECTS: Derivatives

Financial Stability

Investment Advisers

Trading and Markets RE: ICI Files Comment Letter with CFTC on Proposed Amendments to Part 190 Bankruptcy Regulations

ICI has filed a comment letter with the Commodity Futures Trading Commission on the Commission's proposed amendments to its Part 190 bankruptcy regulations ("Proposal").[\[1\]](#) ICI's letter is attached, and is summarized below.

ICI's letter supports the Proposal, which would enhance customer protection and bring needed clarity and modernization to the commodity broker liquidation process. We express concern, however, that certain aspects of the Proposal would harm public customers and cause uncertainty and market disruption in a time of stress. We urge the Commission to address these concerns before adopting final rules.

ICI's letter supports the Commission's efforts to revise Part 190 in order to enhance customer protection. In particular, we support those aspects of the Proposal that would:

- increase the resources available to satisfy public customer claims;
- mitigate fellow customer risk;
- help ensure equitable distribution of customer property;
- remove roadblocks to porting;
- facilitate portfolio margining; and
- ensure that customer property is reserved for customer claims.

The letter explains that these enhancements will limit the extent to which the failure of a futures commission merchant (FCM) or a derivatives clearing organization (DCO) will cause

losses to public customers or market disruption. The letter also notes some further steps the Commission should take to protect customers, including: (i) adopting a segregation regime for futures and foreign futures that would limit fellow customer risk; (ii) coordinating with other regulators to eliminate barriers to porting; and (iii) providing guidance to the trustee regarding the porting of separately managed accounts.

The letter support the Commission's efforts in the Proposal to clarify and modernize Part 190. In our view, Part 190 has previously functioned well in both stand-alone bankruptcy proceedings and proceedings under the Securities Investor Protection Act. We nonetheless agree with the Commission that organizational and clarifying updates are needed to reflect the market and legal changes that have occurred in the nearly four decades since the Commission first adopted Part 190.

The letter expresses concern, however, that certain components of the Proposal would harm public customers and cause uncertainty. We detail our concerns regarding the Commission's proposal to defer to DCO loss allocation, recovery, and wind-down rules, even when such rules conflict with the substantive provisions of Part 190, such as the ratable treatment of customers. We agree with the Commission that clear, well-crafted, and well-vetted rules should be given effect in the liquidation of a DCO. However, DCO rules currently lack the clarity, transparency, rigorous review, comprehensiveness, and consistency required to facilitate an equitable and coherent liquidation that is consistent with Part 190. As a result, effectively incorporating such rules into Part 190 would undermine the goals of the Proposal by threatening to cause significant losses to customers and create uncertainty at a time of unprecedented market distress.

We therefore recommend that the Commission not defer to existing DCO rules in a Part 190 proceeding. Instead, the Commission should, first, require DCOs to implement governance processes that ensure that loss allocation, recovery, and wind-down rules are promulgated as part of a consultative process involving DCO members and customers, rather than on a unilateral and non-transparent basis. Second, the Commission should rigorously review such rules pursuant to its existing Part 40 regulations. Third, the Commission should supplement its existing Part 39 regulations with principles that DCO loss allocation, recovery, and wind-down rules must satisfy. Only once these protections for customers are implemented do we believe it would be appropriate to allow DCO rules to be given effect in a Part 190 proceeding. Even then, however, DCO rules should not be permitted to override any of Part 190's fundamental customer protections, such as the calculation of net equity or the priority right of public customer claims to customer property.

The letter explains that, while we generally agree with providing a Part 190 trustee discretion, we recommend that the Commission carefully tailor such discretion so that it is used to the benefit of public customers. More specifically, the Commission should make clear that the trustee shall: (i) use best efforts to satisfy those requirements of Part 190 that are designed to protect public customers, such as the requirement to follow the Commodity Exchange Act and the Commission's regulations thereunder; and (ii) exercise any discretion granted to it with respect to the other requirements of Part 190 for the benefit of public customers.

Sarah A. Bessin  
Associate General Counsel

## [Attachment](#)

### **endnotes**

[1] See *Bankruptcy Regulations*, 85 Fed. Reg. 36000 (June 12, 2020), available at <https://www.govinfo.gov/content/pkg/FR-2020-06-12/pdf/2020-08482.pdf>.

---

**Source URL:** <https://icinew-stage.ici.org/memo-32595>

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.