

MEMO# 28852

March 20, 2015

CFTC Adopts Revisions to Residual Interest Deadline

[28852]

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TO: DERIVATIVES MARKETS ADVISORY COMMITTEE No. 19-15 RE: CFTC ADOPTS REVISIONS TO RESIDUAL INTEREST DEADLINE

On March 17, 2015, the Commodity Futures Trading Commission (“CFTC”) adopted revisions to 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 proposed revisions to Rule 1.22 that would 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. [\[2\]](#) The revisions, which were adopted as proposed, are described briefly below.

Background

Under Rule 1.22, if an FCM is required to increase its Residual Interest as a result of customer undermargined accounts, the FCM must deposit additional funds into the customer segregated accounts by the specified Residual Interest deadline. Under the rule’s phase-in period, beginning November 14, 2014, the initial Residual Interest deadline is 6:00 p.m. ET on the date of settlement. The CFTC staff is required to host a public roundtable and publish a report for public comment by May 16, 2016 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. Prior to the revisions, Rule 1.22 provided that, absent CFTC action, the phase-in period terminated automatically on December 31, 2018 and the Residual Interest deadline would have changed to the time of settlement on the settlement date.

Revisions to Residual Interest Deadline

The CFTC revised the Residual Interest deadline under Rule 1.22 to remove the automatic termination of the phase-in period and provide that the Residual Interest deadline will remain at 6:00 p.m. ET unless the CFTC takes further action by publication of a new rule. The CFTC believes that revising Rule 1.22 to require the CFTC to conduct a separate

rulemaking prior to revising the Residual Interest deadline will provide market participants with an opportunity to review and comment on the CFTC staff's roundtable and public report, as well as an opportunity to review and comment on any amendments the CFTC may propose to the Residual Interest deadline.

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endnotes

[1] Residual Interest Deadline for Futures Commission Merchants (March 17, 2015), available at <http://www.cftc.gov/ucm/groups/public/@newsroom/documents/file/federalregister031715.pdf>.

[2] For a description of the proposed revisions to Rule 1.22, see ICI Memorandum No. 28511 (Nov. 6, 2014), available at http://www.ici.org/my_ici/memorandum/memo28511.

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