



Commodity Futures Trading Commission

Office of Public Affairs

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Proposed Rule on Designation of Chief Compliance Officer and Preparation of Annual Compliance Report

The Commodity Futures Trading Commission (Commission) is proposing rules concerning the designation, qualifications, and duties of the chief compliance officers (CCOs) of futures commission merchants, swap dealers, and major swap participants. Additionally, the proposed rules describe the required contents of the annual report detailing a registrant's compliance policies and activities, to be prepared by the chief compliance officer and furnished to the Commission.

Applicable Provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)

The Dodd-Frank Act adds section 4s(k) of the Commodity Exchange Act (CEA) to provide for designation of a CCO for swap dealers and major swap participants. The CCO must report directly to the board or to the senior officer of the registrant, review and ensure the registrant's compliance with the CEA, resolve conflicts of interest, administer required policies, and establish procedures for the remediation of noncompliance issues. Section 4s(k) of the CEA also requires that the CCO prepare, sign, and certify an annual report that contains a description of the registrant's compliance with the CEA and Commission regulations, as well as each policy of the registrant, including the code of ethics and conflict of interest policies.

The Dodd-Frank Act also amends section 4d(d) of the CEA to require each futures commission merchant to designate a CCO, who is to "perform such duties and responsibilities as shall be set forth in regulations to be adopted by the Commission."

Qualifications of a chief compliance officer

The Commission is proposing that a CCO have an appropriate background and skills to fulfill his or her responsibilities, and may not be disqualified from registration under the CEA. Although the CCO would not be required to register with the Commission, the CCO would have to be a listed principal of the registrant, and therefore submit a fingerprint card and undergo a background investigation by the National Futures Association.

Duties of a chief compliance officer

The proposed rules track the required duties of the CCO set forth in the Dodd-Frank Act. The CCO must establish compliance policies; resolve conflicts of interest; ensure compliance of the registrant with the compliance policies, CEA requirements, and Commission regulations; identify noncompliance issues; and establish procedures for the remediation of such noncompliance issues. All of the above duties (with the exception of ensuring compliance) are to be undertaken in consultation with the board of directors or the senior officer of the registrant.

Contents of an annual report

The CCO would be required to prepare an annual report that would contain, among other things: a description of the registrant's compliance with the CEA, Commission regulations, and the registrant's own compliance policies; an assessment of the effectiveness of the registrant's policies; a discussion of areas for improvement; a description of the resources set aside for compliance; and a description of any non-compliance issues identified and addressed.