



Commodity Futures Trading Commission

Office of Public Affairs

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Proposed Rule for Risk Management Requirements for Derivatives Clearing Organizations

The Commodity Futures Trading Commission is proposing rules to: (a) adopt a required application form for entities seeking to register as a derivatives clearing organization (DCO); (b) establish the regulatory standards for compliance with DCO Core Principles C (participant and product eligibility), D (risk management), E (settlement procedures), F (treatment of funds), G (default rules and procedures) and I (system safeguards); (c) implement heightened system safeguard standards and special enforcement authority with respect to DCOs that are designated by the Financial Stability Oversight Council as systemically important DCOs (SIDCOs); and (d) supplement the DCO reporting requirements proposed in a previous rulemaking.

DCO Application Form

The Commission is proposing to revise Appendix A to part 39 of its rules, “Application Guidance and Compliance with Core Principles,” by removing the current content and substituting in its place a “Form DCO” application form comprised of a cover sheet and instructions for accompanying exhibits. All applicants for DCO registration would be required to file a completed Form DCO with the Commission.

Proposed Rules Implementing DCO Core Principles

Proposed Rule 39.12 sets forth the requirements that a DCO would have to meet to comply with Core Principle C (participant and product eligibility). The proposed rule addresses participant eligibility (including fair and open access, financial resources, operational requirements, and monitoring, reporting, and enforcement) and product eligibility.

Proposed Rule 39.13 sets forth the requirements that a DCO would have to meet to comply with Core Principle D (risk management). The proposed rule addresses requirements for a DCO’s risk management framework, chief risk officer, measurement of credit exposure (mark to market), margins (including methodology and coverage, independent validation, spread margins, price data, daily review and periodic back tests, and customer margin), and other risk control mechanisms (including risk limits, review of large trader reports, stress tests, swaps portfolio compression, and reviews of clearing members’ risk management policies and procedures).

Proposed Rule 39.14 sets forth the requirements that a DCO would have to meet to comply with Core Principle E (settlement procedures). The proposed rule addresses daily settlements, settlement banks, settlement finality, recordkeeping, netting arrangements, and physical delivery.

Proposed Rule 39.15 sets forth the requirements that a DCO would have to meet to comply with Core Principle F (treatment of funds). The proposed rule addresses segregation of customer funds and assets, acceptable types of margin assets, valuation of assets, haircuts, concentration limits, pledged assets, and permissible investments.

Proposed Rule 39.16 sets forth the requirements that a DCO would have to meet to comply with Core Principle G (default rules and procedures), including default management plans, default procedures, and actions in the event of

a clearing member insolvency.

Proposed Rule 39.18 sets forth the requirements that a DCO would have to meet to comply with Core Principle I (system safeguards), addressing programs of risk analysis, business continuity and disaster recovery plans (including coordination with clearing members' plans), location of resources, outsourcing, notification of the Commission, recordkeeping, and testing.

Requirements for SIDCOs

Proposed Rule 39.30 would impose heightened standards upon SIDCOs with respect to system safeguards supporting business continuity and disaster recovery (recovery time objective and geographic diversity) pursuant to Section 805(a) of the Dodd-Frank Act.

Proposed Rule 39.31 would implement the Commission's special enforcement authority over SIDCOs, pursuant to Section 807(c) of the Dodd-Frank Act.

Amendments to the DCO Information Management Rulemaking

The Commission is proposing to amend proposed Rule 39.19 (published in the Federal Register December 15, 2010) to require a DCO to report to the Commission its clearing members' end-of-day customer positions for each beneficial owner, and to require a DCO to submit certain reports in accordance with proposed governance and system safeguards rules.