



U.S. COMMODITY FUTURES TRADING COMMISSION

Three Lafayette Centre
1155 21st Street, NW, Washington, DC 20581
Telephone: (202) 418-5000
eflaherty@cftc.gov

Division of Swap Dealer and
Intermediary Oversight

Eileen T. Flaherty
Director

CFTC Letter No. 17-14
No-Action
February 15, 2017
Division of Swap Dealer and Intermediary Oversight

Re: Request For No-Action Relief from the Requirement to Register as a Commodity Pool Operator under Section 4m(1) of the Commodity Exchange Act

Dear :

This is in response to your letter dated January 18, 2017 to the Division of Swap Dealer and Intermediary Oversight (the “Division”) of the Commodity Futures Trading Commission (the “Commission” or the “CFTC”). In the letter, you request, on behalf of “A” and “B”, that “B” receive relief from the requirement to register with the Commission as a commodity pool operator (a “CPO”) under section 4m(1) of the Commodity Exchange Act (the “Act”)¹ in connection with its role as trustee of a certain commodity pool (the “Pool”). Instead, you state that “B” will delegate certain of its responsibilities as the CPO of the Pool to “A” pursuant to the applicable requirements of CFTC Staff Letter No. 14-126 (“Letter 14-126”),² except for criterion 6 therein.

Background

On May 12, 2014, the Division issued CFTC Staff Letter No. 14-69 (“Letter 14-69”), which was in response to numerous requests asking that the Division provide no-action relief for failure to register as a CPO under section 4m(1) of the Act, if another person would serve as the registered CPO of the commodity pool at issue in lieu of the requesting CPO. Letter 14-69 developed a standardized, streamlined approach pursuant to which the Division addressed these types of relief requests, and set forth certain requirements that were based on prior staff no-action letters.

¹ 7 U.S.C. §6m(1). The Act is found at 7 U.S.C. §§1 et seq. (2012). It may be accessed through the Commission’s website, www.cftc.gov.

² October 15, 2014. This, and the other Commission staff letters referenced in this letter, is available on the Commission’s website, www.cftc.gov.

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On October 15, 2014, the Division issued Letter 14-126, which was a further refinement of the relief addressed in Letter 14-69. Like Letter 14-69, Letter 14-126 provided no-action relief for failure to register as a CPO under section 4m(1) of the Act, if another person would serve as the registered CPO of the commodity pool at issue in lieu of the requesting CPO. The circumstances and conditions for relief under Letter 14-126 were, in purpose and effect, the same as those set forth in Letter 14-69, with the exception of certain added clarifications. One of those conditions was that, if the Delegating CPO³ and the Designated CPO⁴ are each a non-natural person, then one such CPO controls, is controlled by, or is under common control with the other CPO. The relief provided by Letter 14-126 was self-executing, and no notice or claim needed to be filed, in order to, in part, ease the administrative burdens of Letter 14-69 on the Division. In issuing Letter 14-126, the Division noted that there may be other CPO delegation situations involving circumstances in which CPO registration no-action relief may be warranted that are not addressed by Letter 14-126 and indicated that it intends to continue to evaluate requests submitted pursuant to Commission regulation 140.99 for CPO registration no-action relief from persons who fall outside of the scope of Letter 14-126.⁵

Requested Relief

Based on the representations made in your letter and other email and telephone correspondence (the “Correspondence”), we understand the facts to be as follows. “A” is an investment adviser that was formed in “W”. “A” operated only proprietary funds until “X”, when it began taking in outside investments. At that point, “A” operated pursuant to a now-defunct exemption in Commission regulation 4.13(a)(4), until that regulation was rescinded at the end of 2012. “A” registered as a CPO in January 2013. In addition, “A” is registered with the U.S. Securities and Exchange Commission (the “SEC”) as an investment advisor under the Investment Advisors Act of 1940,⁶ as amended. “A’s” operations are based in the United States, and all of its books and records are kept in the United States. Currently, “A” has approximately \$ in assets under management.

“B” is an entity that is organized in the Cayman Islands. “B” serves as the trustee of the Pool. The Pool with respect to which “B” is requesting registration relief as a CPO is listed in Appendix A. The Pool is a trust organized under the laws of the Cayman Islands.

In addition, you state that “A” and “B” satisfy all of the applicable criteria in Letter 14-126, except for criterion 6 therein, which states that, “If the Delegating CPO⁷ and the Designated CPO⁸ are each a non-natural person, then one such CPO controls, is controlled by, or is under common control with the other CPO.” In particular, you represent the following:

³ This is defined in Letter 14-126.

⁴ *Id.*

⁵ Letter 14-126, page 2. The Division indicated the same following the issuance of Letter 14-69 as well.

⁶ 15 U.S.C. §§ 80b-1 to 80b-21.

⁷ This is defined in Letter 14-126.

⁸ *Id.*

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- Pursuant to a legally binding document, “B” has delegated to “A” all of its investment management authority with respect to the Pool.
- “B”, including any of its employees or other persons acting on its behalf, does not participate, and has never participated, in the solicitation of participants for the Pool.
- “B”, including any of its employees or other persons acting on its behalf, does not manage, and has never managed, any property of the Pool.
- “B” is not subject to statutory disqualification under section 8a(2) or 8a(3) of the Act.
- There is a business purpose for “A” being a separate entity from “B” that is not solely to avoid registration by “B” under the Act and the Commission’s regulations.
- The books and records of “B” with respect to the Pool are maintained by “A” in the United States in accordance with Commission regulation 1.31.
- “B” and “A” have executed a legally binding document whereby each undertakes to be jointly and severally liable for any violation of the Act or the Commission’s regulations by the other in connection with the operation of the Pool.

Relief Granted

Based upon the representations made in the Correspondence, the Division will not recommend that the Commission commence any enforcement action against “B” for failure to register as a CPO under section 4m(1) of the Act in connection with its role with respect to the Pool. This position is subject to all of the representations that you have made in connection with your relief request. Although “A” and “B” are not under common control and neither “A” nor “B” controls the other, they have executed a legally binding document whereby each undertakes to be jointly and severally liable for any violation of the Act or the Commission’s regulations by the other in connection with the operation of the Pool. Further, the entity to which “B” has delegated has been operating commodity pools for over “Y” years and registered as a CPO when required to do so following the rescission of its exemption, has been registered with the SEC for over “Z” years, has approximately \$ under management, and will maintain all books and records in the United States.

The relief issued by this letter does not excuse persons relying on it from compliance with any other applicable requirements contained in the Act or in the Commission regulations issued thereunder. Further, this letter, and the relief contained herein, is based upon the representations made to the Division. Any different, changed, or omitted material facts or circumstances might render this letter void. The Division retains the authority to condition, further, modify, suspend, terminate, or otherwise restrict the terms of the relief provided herein in its discretion. Finally, this letter and the position taken herein represent the views of this Division only, and do not necessarily represent the views of the Commission or of any other office or division of the Commission.

“B”

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Should you have any questions, please do not hesitate to contact Amanda Olear, Associate Director, at 202-418-5283, or Chang Jung, Special Counsel, at 202-418-5202.

Very truly yours,

Eileen T. Flaherty
Director
Division of Swap Dealer and
Intermediary Oversight

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Appendix A

“C”