



Commodity Futures Trading Commission

Office of Public Affairs

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Q & A – Regulation 1.25

What is the goal of the rulemaking?

In finalizing amendments to the Commission's regulations regarding investment of customer and secured amount funds, the Commission seeks to simplify Regulation 1.25 and impose requirements that can better mitigate credit, liquidity and market risk and ensure the preservation of principal and maintenance of liquidity. The Commission has (1) narrowed the scope of investment choices, (2) raised certain standards imposed on permitted investments individually and on a portfolio basis, and (3) increased safety by promoting diversification. The Commission has endeavored to tailor its final rule to achieve these goals while retaining an appropriate degree of investment flexibility and opportunities for attaining capital efficiency for derivatives clearing organizations (DCOs) and futures commission merchants (FCMs) investing customer segregated funds and secured amount funds.

Does the rulemaking limit the collateral that may be used by customers of an FCM?

No. The rulemaking focuses solely on the investment of customer funds by FCMs and DCOs. The Commission's interest is in ensuring that customer funds are invested in instruments that satisfy the Commission's overall objective of preserving principal and maintaining liquidity.

Does the rulemaking contain any amendments affecting investments money market mutual funds (MMMFs)?

Yes. Investments in MMMFs would be subject to several limitations. First, FCMs and DCOs may invest up to 10% of their customer segregated funds in MMMFs with less than \$1 billion in MMMF assets and/or a management company with less than \$25 billion of MMMF assets under management. An FCM or DCO may invest all of its funds in MMMFs meeting both size requirements, subject to additional limitations. While there is no asset-based concentration limit for Treasury-only MMMFs, FCMs and DCOs may invest up to 50% of their segregated funds in non-Treasury-only MMMFs. Additionally, FCMs and DCOs investing in non-Treasury-only MMMFs may invest no more than 25% in one family of funds and no more than 10% in any individual MMMF.

The rulemaking also contains two technical amendments. First, the rulemaking clarifies that acknowledgment letters for MMMFs are to be from a party that has substantial control over the fund's assets and has sufficient knowledge and authority to facilitate redemption. Second, the rulemaking updates and clarifies the next-day redemption requirement for MMMFs (as well as include an appendix with safe harbor language for MMMF prospectuses).

Does the rulemaking contain any amendments affecting investments in foreign sovereign debt?

Yes. The rulemaking eliminates foreign sovereign debt as a permitted investment.

Does the rulemaking contain any amendments affecting in-house transactions and repurchase agreements?

Yes. The rulemaking eliminates in-house transactions and repurchase agreements with affiliates. Repurchase agreements with third-parties are still allowed, subject to a 25% counterparty concentration limit.