



Commodity Futures Trading Commission

Office of Public Affairs

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Proposed Rule on Clearing Member Risk Management

The Commodity Futures Trading Commission (Commission) is proposing rules concerning clearing member risk management for swap dealers, major swap participants, and futures commission merchants that are clearing members.

Proposed Clearing Member Risk Management Rules

The proposed regulations would require each swap dealer, major swap participant, and futures commission merchant that is a clearing member to establish credit and market risk-based limits based on position size, order size, margin requirements, or similar factors. In addition, the proposed regulations would require use of automated means to screen orders for compliance with the risk-based limits. These requirements could be addressed through simple numerical limits on order or position size or through more complex margin-based limits. Further examples could include price limits to reject orders that are too far away from the market, or limits on the number of orders that could be placed in a short time.

Monitoring of Risk Limits

The proposed regulations would also require monitoring for adherence to the risk-based limits intra-day and overnight. A clearing member could monitor and mitigate risk with the ability to see all working and filled orders for intraday risk management, or with a “kill button” that cancels all open orders for an account and disconnects electronic access.

Stress Testing

A swap dealer, major swap participant, and futures commission merchant would also be required to conduct stress tests of all positions in the proprietary account and all positions in any customer account that could pose material risk to the futures commission merchant, to evaluate its ability to meet initial margin requirements, and to evaluate its ability to meet variation margin requirements in cash at least once per week.

Monitoring Liquidation Costs

Furthermore, the proposed regulations would require a swap dealer, major swap participant, and futures commission merchant that is a clearing member to evaluate its ability to liquidate positions it clears in an orderly manner, and estimate the cost of the liquidation at least once per month.

Testing Lines of Credit

Finally, a swap dealer, major swap participant, and futures commission merchant that is a clearing member test all lines of credit at least once per quarter under the proposed regulations.