



Commodity Futures Trading Commission

Office of Public Affairs

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Proposed Rule on Conflicts of Interest for Swap Dealers, Major Swap Participants, Futures Commission Merchants, and Introducing Brokers

The Commodity Futures Trading Commission (Commission) is proposing rules establishing conflicts of interest requirements for swap dealers, major swap participants, futures commission merchants, and introducing brokers.

Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)

Section 731 of the Dodd-Frank Act amends the Commodity Exchange Act (CEA) by inserting a new section 4s(j)(5), which requires that swap dealers and major swap participants establish appropriate informational partitions between persons researching or analyzing the price or market for any commodity or swap and persons whose involvement in pricing, trading or clearing activities might potentially bias the judgment or supervision of persons engaged in research. Section 731 also requires additional partitions between persons “acting in a role of providing clearing activities or making determinations as to accepting clearing customers” from persons involved in pricing, trading or clearing activities.

Section 732 of the Dodd-Frank Act similarly amends section 4d of the CEA by directing futures commission merchants and introducing brokers to implement similar informational partitions between those researching or analyzing prices or markets for commodities and those involved in trading or clearing activities.

Influence on Research

The proposed rules will place restrictions on non-research personnel influencing the content of research reports prepared by research analysts employed by a swap dealer, major swap participant, futures commission merchant, or introducing broker. Additionally, the rule would prohibit the supervision of research analysts by certain trading and clearing personnel. The proposed rules also will prohibit swap dealer, major swap participant, futures commission merchant, or introducing broker from considering a research analyst’s contributions to the trading or clearing business when setting the research analyst’s compensation.

Prohibition of Promise of Favorable Research

The proposed rules will prohibit swap dealers, major swap participants, futures commission merchants, and introducing brokers from offering favorable research, or threatening to change research, for existing or prospective counterparties in exchange for business or compensation.

Disclosure of Personal Conflicts of Interest

A futures commission merchant or introducing broker must disclose in research reports and a research analyst must disclose in public appearances whether the research analyst maintains a financial interest in any derivative of a type that the research analyst follows, and the general nature of the financial interest.

Under the proposed rules, swap dealers, major swap participants, futures commission merchants, and introducing brokers will be required to disclose whether a research analyst maintains a financial interest in any derivative of a type that the research analyst follows, and the general nature of the financial interest. Research analysts must make the same disclosure when making public appearances.

Prohibition on Retaliation

The proposed rules will prohibit swap dealers, major swap participants, futures commission merchants, and introducing brokers from retaliating against any research analyst who produces a research report that may adversely impact certain of the firm's business activities.

Conflicts of Interest in Clearing Activities

Under the proposed rules, swap dealers or major swap participants are prohibited from interfering with or attempting to influence decisions related to the provision of clearing or the acceptance of clearing customers. Swap dealers and major swap participants also must maintain appropriate partitions between business trading personnel and the personnel of an affiliated clearing member. Additionally, no futures commission merchant shall permit an affiliated swap dealer or major swap participant from interfering with or attempting to influence decisions related to the provision of clearing or the acceptance of clearing customers.