UNITED STATES OF AMERICA

COMMODITY FUTURES TRADING COMMISSION

PUBLIC ROUNDTABLE:

RESIDUAL INTEREST DEADLINE REQUIREMENT FOR FUTURES COMMISSIONS MERCHANTS

Washington, D.C.

Thursday, March 3, 2016

PARTICIPANTS:

Opening Remarks:

CHAIRMAN TIMOTHY MASSAD

COMMISSIONER SHARON BOWEN

COMMISSIONER CHRISTOPHER GIANCARLO

Other Participants:

EILEEN FLAHERTY
CFTC

THOMAS SMITH
CFTC

JOSHUA BEALE
CFTC

STEPHEN KANE
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DEBBIE KOKAL
CME GROUP

REGINA THOELE
NFA

WILLIAM THUM
The Vanguard Group

PEDRAG ROGIC
T. Rowe Price

DUSTIN BAKER
National Pork Producers Council

TODD KEMP
National Grain & Feed Association

PARTICIPANTS (CONT'D):

GERRY CORCORAN
RJ O'Brien Associates, L.L.C.

TOM KADLEC
ADM Investor Services, Inc.

MARK BURO
Bank of America/Merrill Lynch

BILL TIRRELL
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MAUREEN BURKE
Citigroup Global Markets

PATRICK SHEEHAN
Goldman Sachs

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P R O C E E D I N G S

MS. FLAHERTY: Okay, in the interest of time, I think we'll begin. I'm Eileen Flaherty. And I'd like to welcome each of you to this round table and thank you for coming, happy to have you participating.

We are hosting this round table as required by CFTC Regulation 1.22 to have an important discussion on the topic of the deadline for residual interest and the practicability of moving it from T+1 at 6 o'clock.

Before I get to that, before we start our discussion, I've been asked by the Office of General Counsel to read a disclaimer to remind the Commissioners that this is not a meeting under the Sunshine Act. It's a round table, so to refrain from deliberations.

But of course you're welcome to, as other round tables, ask questions of the participants and seek any clarification.

With that, maybe we can go around the table and everybody can introduce themselves and who they represent, starting with Tom.

MR. SMITH: Good morning. I'm Tom Smith. I'm a deputy director in the Division of Swap Dealer and Intermediary Oversight.

MR. BEALE: Good morning. I'm Josh Beale, also in the Division of Swap Dealer and Intermediary Oversight.

MR. KANE: Stephen Kane, I'm an economist in the Office of the Chief Economist.

MS. KOKAL: I'm Debbi Kokal. I am with CME Group and the Financial and Regulatory Surveillance Department and also the chairman of the Joint Audit Committee.

MS. THOELE: Regina Thoele from National Futures Association and the senior vice president. And I oversee the Compliance Department.

MR. THUM: Hi, I'm Bill Thum. I am at Vanguard. I'm an officer responsible for derivatives regulation and trading agreements.

MR. ROGIC: Good morning. My name is Predrag Rogic. I'm senior legal counsel at T. Rowe Price.

MR. BAKER: Dustin Baker, manager, Domestic Production Issues at the National Pork Producers Council.

MR. KEMP: Todd Kemp, senior vice president with National Grain and Feed Association.

MR. CORCORAN: Gerry Corcoran with R.J. O'Brien and Associates, CEO.

MR. KADLEC: Tom Kadlec, president of ADM Investor Services.

MR. BURO: Mark Buro, director of Regulatory Reporting, Bank of America Merrill Lynch.

MR. TIRRELL: Hi. Bill Tirrell, managing director, head of the US Broker Dealer and FCM Regulatory Reporting at Bank of America Merrill Lynch.

MS. BURKE: Good morning, Maureen Burke. I head up a futures regulatory reporting at Citigroup. And I also chair the FIA Financial Management Committee.

MR. SHEEHAN: Good morning, Patrick

Sheehan, Goldman Sachs, vice president, Futures and Derivative Client Services.

MS. FLAHERTY: Okay. Thank you everyone. I'm going to turn it over to Tom and Josh. Before I do that, I want to thank them, Josh Beale and Tom Smith, for doing the heavy lifting to bring together this important meeting on this important topic.

So, Tom and Josh, first some formalities here.

MR. BEALE: Thank you, Eileen. Good morning, everyone. And before I get into some background of Regulation 1.22, I just wanted to quickly go over some logistics.

First, I've been asked to alert everybody. It seems like people are kind of familiar with the microphones, but please keep the microphone a few inches away when you wish to speak and press the white button on the base. When your indicator light appears red, your microphone is on. When you're finished talking please press the microphone again to turn it off.

It's important that, if we have a number of microphones on at the same time it can lead to feedback. And some of the court reporters, it can be a little difficult to figure out what's going through the recording. And please refrain from putting any mobile cell phone device on the table, as it may also cause interference. Please be advised also that this meeting that this meeting is being recorded.

Second, we've provided name tents at each of the tables. A practice that seems to work well these types of discussions is to use the tent to kind of alert us to chime in. Or, you know, we'll kind of keep a running queue of folks and try and call on people accordingly as the discussion develops. And that kind of brings me to our final point.

As we mentioned to you all previously, we have just the one topic for today's round table, the residual interest deadline. And we envision the format to be very much open discussion. And so with that, we've planned to go about noon.

I should also note our standard disclaimer, in that, to the extent myself or any of the other Commission staff seated up here alongside of me today express any views, those are obviously our own individual views and not that of the Commission or any other person.

So with that, I'm going to just kind of go over a little bit of the background of why we're here today, just for the record and to remind folks of where we got and why we're here.

On October 30th, 2013, the Commission amended Regulation 1.22 to require that an FCM maintain its own capital or residual interest in customer segregated accounts in an amount equal to or greater than its customers' aggregate under margin amounts.

In so doing, the Commission noted that the act expressly prohibits an FCM from using the collateral of one customer to margin, secure or guarantee the trades or contracts of other customers.

To alleviate implementation concerns in adopting the revisions to Regulation 1.22, the Commission established a phased-in compliance schedule with an initial residual interest deadline of 6 o'clock p.m., Eastern time, on the date of settlement, effectively T+1, beginning on November 14th, 2014.

At that time, the phased-in compliance schedule included an automatic termination of the T+1 at 6:00 p.m. Deadline for futures to revert back to the time of settlement on December 31st, 2018, if the Commission took no action during the compliance period.

On March 17th, 2015, about a year ago this time, the Commission amended Regulation 1.22 again to remove the December 31st, 2018, automatic termination of the phased-in compliance period.

In doing so, the Commission stated its intention to retain the residual interest deadline at 6:00 p.m., Eastern Time unless the Commission takes further action via rulemaking.

The removal of the automatic

terminations, the Commission stated, would provide the Commission with a greater degree of flexibility to assess all relevant data, including the costs and benefits of revising the residual interest deadline.

The Commission also retained in the regulation the requirement that Commission staff publish, for public comment, a report addressing the practicability, and costs and benefits of revising the residual interest deadline and the additional requirement for Commission staff to conduct a public round table on the issue, and hence our presence here today.

So with that, I will turn things over to Tom for any other remarks and to get the discussion started.

MR. SMITH: Thanks, Josh. I have no further remarks. I think we'll just go ahead, and we'll get started on it. But the residual interest deadline, as you all know, was just one part of the Commission's customer protection rulemaking.

It was also a risk management requirement for FCMs that included a calculation of the residual interest that was based on the experience of the firm and what they thought that they needed as an appropriate level of their capital into segregated accounts. There was a greater disclosure to customers.

And then subsequent to that, we worked with the industry on certain issues such as the ACH transactions from customer accounts. So that's all part of this.

But if we look at now, we've had approximately a year and a half of activity since this rule has been effective. And we thought we would start off with just general observations of the panelists of how that's been implemented or what their thoughts are on the current state of play and sort of the transition from the original status to where we are today which is at T+1 at 6:00 p.m.

So if anyone would like to start off on giving us your observations, that'd be great.

MR. THUM: I can start. And I wanted to provide some background. Because Vanguard was a strong supporter of the rules to enhance protections for margin and a strong advocate for the acceleration of the timeline for the residual interest rule.

The background for our concerns really was for cleared swaps we'd press for protections, given the long history of margin protection in the over the counter market.

For futures we pressed for enhanced protections, given the long history of margin segregation based on the net positions across all customers and our concern with that and also the practice for FCMs to front margin for their customers but not accrue a capital charge for up to five days.

In the futures space, we are concerned that these practices serve to mask the true adequacy of the actual margins supporting the overall aggregate gross exposures across the futures market.

At an earlier round table, I'd like to quote Bob Wasserman who said, "There are only three sources of margin. Customer margin to secure such customer's own positions, excess margin from customers used to cover other customers' deficits and margin lent to a customer by its FCM.

And the estimates that the new margin required by the proposed rules might actually reflect the amount of margin deficits in the current system that are otherwise covered by other customers' excess margin.

We felt that the enhanced protection rule, as it was finalized, added much needed transparency and protection for the market in terms of greater certainty that customer funds will be protected.

FCMs were required to establish robust risk management programs. There was better CFTC and SRO transparency into customer accounts, enhancements to FCM capital and liquidity adequacy and enhanced FCM auditing access to disclosures to the customer.

In terms of enhanced protection, we felt that tighter margin rules provide more LSOC-like protection to margin for futures in that they prohibit FCM comingling of customer funds, prohibit FCM using one customer's assets to secure another's obligations and prohibit clearing organizations from comingling.

Our experience over the past year following the acceleration of the residual interest timeline has been very positive. The way the daily calls work is that the customers receive, well, DCOs calculate initial margin live and variation margin at the end of the day.

FCMs notify customers of initial margin and variation margin overnight. Customers receive initial margin and variation margin calls overnight and begin to process the calls first thing in the morning.

There's, of course, a reconciliation process that's needed. Teams confirm the positions, the value and the margin. Instructions are then given for US funds with US custodians. Instructions are sent as soon as possible to make the transfers.

But for non-US funds and non-US custodians, instructions need to go offshore to custodians. It takes additional time for verification. And there are possible market close issues.

In terms of our contracts, both our futures agreements and our cleared swaps agreements have clauses that say that if we receive notice of a demand for a transfer by 10:00 a.m. the transfer is required to occur same day.

If the notice arrives after 10:00 a.m., the transfer is meant to occur by the end of business on the second day, the next day.

The practice, we found, has been very inconsistent in terms of the timing of the demands that we get. Some calls come in the morning, some in the afternoon.

I've talked to our back office, and we truly face about a 3:00 p.m. deadline to try to make transfers happen in the same day.

In terms of recommendations, we feel that the CFTC should continue to monitor practices to determine when calculations, calls, verifications, instructions, transfers can happen instantaneously.

And we also recommend that the CFTC consider extending the LSOC protections and LSOC plus access to the futures market. With LSOC protections, the market may be more comfortable to pre-fund margin obligations.

At present, we recommend that we maintain the residual interest timing of T+1 at 6:00 p.m. on the settlement date. The concern is, of course, that we cannot guarantee the timing of transfers same day.

And if FCMs were required to set aside capital with respect to funded margin, they would call on their customers either to pre-fund the margin commitment or indeed charge us for the margin that their fronting for us.

We're unwilling to pre-fund the margin, given the absence of LSOC protection, particularly in the futures space. So given all these considerations, we think the T+1 at 6:00 p.m. should stand.

MR. SMITH: Bill, just following up. The inconsistency that you see, is that by FCMs' different approaches? Is it by type of account, cleared swaps versus futures? Is there anything further on that?

MR. THUM: I think there's no pattern to it, you know, as we see it. And I think this, it provides challenges, I think, for the funds as well in terms of striking the value, even of the value of the transaction for the value of the fund.

So while we had advocated for a tighter timeline for the residual interest rule to apply, we don't see that that's practical at present, but it should accelerated beyond T+1 at 6:00 p.m. And we certainly don't want to be pre-funding our margin because of the lack of LSOC plus excess protection in the futures space.

MR. ROGIC: I can add a little bit coming from the same sort of side of the market as Bill. You know, just in terms of our direct experiences day to day, we really did not see any difference between, you know, as of the time that T+1 at 6:00 p.m. deadline has been in effect.

You know, I think there are things are functioning, you know, normally as they were before that, that deadline. And, you know, we generally -- similarly our contracts are similar in terms of margin posting timelines. And we generally are able to post margin by the end of the day, you know, on the same day that we receive the call.

But I was just, you know, thinking about the, in our issue today and what is, you know, keeping in mind that the purpose of this deadline is basically to maintain compliance with the basic principle of making sure that FCMs are not using one customer's margin to support positions of another customer.

I think, and I'm glad we're talking about this in the context of a study, because I think the issue really merits, you know, serious consideration.

And up to this point, we've had numbers, you know, thrown around, but I don't know that they were systematically sort of analyzed and that they were helpful in achieving, you know, a reasoned decision.

So looking at roughly the timeline, the FCM will, end of business, the FCM will make the under margin calculations based on its predictions as to what the DCO will ask of it the next morning, I believe.

So at that point, the way the current regime works, there is no obligation for the FCM if it determines that there is an under margin account. There's no obligation to post residual interest.

Then we have the settlement the next morning where the DCO will go and take the funds out of the FCM's account that it needs to satisfy the margin call.

I presume the FCM will then shortly after make calls on its customers. And those funds will be arriving during the day, probably most of them towards the end of the day. And so only after those funds have arrived at 6:00 p.m. does the FCM have the obligation to make up for any deficiencies.

So in my mind, I'm still -- the open question is what happens at time of settlement when the FCM has an under margin amount, and it's not coming from customer funds. And it's not coming, unless they see them voluntarily post residual interest at the time of settlement. You know, there is a question as to, you know, what is the state of affairs at that point in time.

I recently heard, you know, talking to a person that has, that's been on the FCM side for a while that it's typical for FCMs to have overdrawn accounts with a DCO, which was news to me. I don't know if anyone else can shed some light on that.

But to me that is a concern. I mean, if that's the outcome of the current regime, having overdrawn accounts during the, you know, during the trading day, I think, you know, kind of puts forth some systemic risk questions that I think the study will hopefully shed some light on.

And so I guess my conclusion would be, you know, I think the current regime, even though, you know, it's working fine, but it hasn't been really tested in times of crisis which is what I think we're trying to achieve here.

I welcome the study and the opportunity to see some, you know, some analysis based on actual, you know, practices in the industry and how they relate to ultimately, you know, the protection of customer funds and, you know, the curtailment of systemic risk.

MS. BURKE: Would you like to hear from the FCM perspective? So from the FCM perspective, the implementation, and there are some questions that, you know, Tom circulated out. But the implementation of the T+1 settlement, it's a combination of rules that were implemented at the same time.

And Bill, as you mentioned, the compression of the under margin grace period, from an overall system perspective in the safeguards, and all the layering effect and all the rules that we have, it has enhanced overall the safeguards in the system to the clients as well as to the FCMs.

Because as you mentioned, you know, there is fellow customer risk. There's also fellow FCM risk. So by the fact that the margin grace period has been compressed, that actually reduces potential risk in the system.

And, you know, there are other capital rules that are in place that layer on top of that. So as soon as a client puts a position on with an

FCM, there's a minimum capital requirement that's required by that FCM to have in place prior to the position going on.

Because you have a minimum continual capital requirement which is eight percent of your risk-based margin obligation. So that's there the moment positions are put on.

The FCM has to monitor their capital levels. They have a minimum. They have an early warning level on capital. And that monitoring goes on on a firm-wide basis. And many firms have, like, there's the minimum and there's a reportable violation if you go below that. So they maintain excess.

And if you can go out and look at some of the analysis, many of the FCMs have quite a bit of excess infused to support this business. So that's a starting point.

And then when you look at the enhancements that were brought in under enhanced customer protection, with the requirement that the FCM has to ensure, by T+1 close of business, for any uncollected margin, they have to have enough residual interest to support their remaining margin deficiencies.

So that's monitored. And that's always been monitored. The margin requirements are monitored in all FCMs on a daily basis. They're also monitored from a credit perspective, the open positions. The amount of risk that's being brought in to the FCMs is monitored.

This enhancement really just, you know, I think, did add further safeguards to the system to reduce fellow customer risk and also to reduce fellow FCM risk which I think is very important.

And then the layering of the effect with the grace period being reduced, so if you have a client that has an under margin deficiency by T+1 close of business, you have to now have enough residual interest to support that when you go into the next business day.

If you still haven't collected by close of business T+2, the FCM will then have to take that capital charge plus have that funding infused into the SEG comps as double funding/capital impact. And then on top of that, you have the minimum capital requirement of the eight percent of the maintenance margin, risk-based margin requirement.

So, you know, adding that all up, and there's many more things that we could talk about here and give others an opportunity to speak but, you know, the whole risk management program, the transparency, everything else that was embedded in the rules, requirements that the FCM has to maintain a targeted residual interest.

Where you used to just have to make sure you had one dollar over your SEG obligations, you now have a targeted residual interest that you monitor on a daily basis. You're monitoring your trading activity, you're monitoring the flow of funds.

The market, if there're some big moves in the market, you know, we have exposure. You're speaking with your risk teams, monitoring, you know, client exposures. You may infuse to maintain that targeted residual interest.

If you go below the targeted residual interest, there is a notification requirement to your DSRO. And you need to actually, in writing, state why you went below. Was it, you know, large moves in the market, deficits went up?

So it's that additional layering within the enhanced customer protections that have really enhanced the safeguards to, you know, all customers and FCMs.

And there is quite a bit of transparency that now, in addition to going out to the clients or DSRO, and then you have the DSROs have CME as their main DSRO, they have direct information.

We're required to submit our SEG computations by 12:00 p.m. They were always required to be computed by 12:00. You now have to put it into the system. And the DSRO is getting the external documentation from the custodians, from the banks. And they're actually tying that in on a systemic basis to ensure the accuracy of the information. So that's another layering of effect.

And then, you know, back to one of your questions, Tom, that you asked about, you know, did the FCMs have to do any system enhancements to be able to compute the residual interest by T+1 close of business, there were requirements and many technology enhancements that needed to be put in place to monitor the collections.

All the FCMs, you know, we'd have margin teams that are monitoring the collections through the course of the day. That's their primary day job. The credit teams are monitoring risk, and exposures and collection of margin.

But we also needed to enhance all of our reporting to get updates through the course of the day to project what our funding requirements would be.

And in many instances, a lot of our systems are batch processes. So you would get that final under margin deficiency at the close of business going into the next business day or be produced through the batch process. So we needed to enhance our systems to be able to get snapshots of our margin deficiencies through the course of the day.

You know, so the first one, you know, you know what your numbers are first thing in the morning. Go to a 12:00 p.m. cut, say, okay, here's our collection. And then you're at 3:00 p.m., potential funding projection. And then the end of day and back to, you know, the point that I think Bill was making is, especially when you have the large investment advisors that have, they're managing many accounts. The funds are not coming into the FCM until later in the day, really past the 4:00 p.m. cut, because of all of work that's done by those investment managers, meeting all of the margin obligations across multiple FCMs, across multiple business lines.

And they're also interacting with the custodians. So it's really getting that information in a timely basis. And, you know, back to points that were made earlier, to move it up earlier than T+1 6:00 p.m., there would have to be potential pre-funding to the clients required or charges imposed.

Because the structure, even in the flow of funds, you know, from the custodians, and from the banks and the clients, investment advisors, things along that line, to get that in at a 10:00 a.m. time period is not feasible. To get it in at 12:00 is not feasible. It's really later in the day when you get an opportunity to -- really the lion's share of the funds flow in from, say, 3:00 p.m. to 6:00 p.m.

So I'll pass it off to any of the other FCMs.

MR. TIRRELL: I'm going to echo Maureen's statements there. But I would like to add also that we felt that moving, you know, compressing the timeframe to the T+1 worked well for both the FCMs for a lot of their, you know, technology improvements that were made as well as for our institutional clients.

And I think that worked well, because they were well aware of the regulations that were going in, the layering. So there are other protections. We can't look at this in isolation by itself.

So there is a risk/reward balance that's being struck on these timeframes from a practical standpoint as we talk about West Coast clients, investment managers and so on, you know, needing to balance those records, make those calls.

The interconnectivity of the futures markets, a lot of the participants are not dealing in one product. And therefore, their liquidity is spread out among different types of products in different cash markets as well as well as securities markets as well.

So you could actually have net equity with a client from a risk standpoint. But that client may not have the liquidity in order to make margin calls throughout the various times of the day because of the interconnectivity and the settlements that take place in different clearing houses and so on.

So I think, you know, as stated before,

the T1, 6:00 p.m., you try to compress that further, I think you start introducing more operational risk into the process which would be counterproductive to the, you know, the overall concept of eliminating some of the systemic risk.

So again, I think when you look at all the regulations that were put in place in totality and the balancing of that, that risk/reward, if you will, without creating more operational risk and creating more cost to the end user, because ultimately someone's going to need to pay for that inefficiency in the funding. That drain on liquidity isn't going to ultimately need to be passed down to the clients.

And I think at that point, you start to, you know, really start to consider the cost of that, you know, that compression versus all the other risk that you just introduced into the system and complexity for the end users and the institutional clients in order to meet those obligations.

MR. BURO: I just had one other item to

add. So I agree with Bill and Maureen's comments. And just to add, you know, FCMs in general, our FCM and I'm sure similar FCMs, although the deadline is currently set at 6:00 p.m., you know, FCMs in our case, you know, we're performing this calculation around 4 o'clock, maybe earlier on times of market volatility.

So although officially at 6:00 p.m., FCMs need time to do that analysis, you know, to make sure that they're getting confirmation, or if they need to increase the residual interest, those instructions are sent to the bank, and we get a confirmation.

So I just wanted to point out that although it's officially 6:00 p.m., you know, in my mind that deadline is a lot earlier in the day already.

MR. SMITH: Gerry?

MR. CORCORAN: Thanks, Tom. I'd just like to reinforce what Maureen and others have said about the regime as a whole has been strengthened tremendously and that we shouldn't be looking at T1 at 6:00 in isolation. We have to take into the totality of the regime.

I'd like to speak a little bit more about, you know, the real world. R.J. O'Brien is an independent FCM. We have about 80,000 customer accounts. And we have a wide range of customers.

We'll serve a self-directed retail client. We'll serve many farmers and ranchers. We have a very large introducing broker network. And we also service agricultural corporates. And so we have a wide range of customers that have to meet their margin deadlines.

We did invest significantly in our systems for real time monitoring of margin requirements and margin payments. We also have a realization that some institutional accounts have processes that take time for them to get the authority or the approval to send out the wires.

But really where the T1 at 6:00 is helpful is farmers, and ranchers, and introducing brokers. And the Commission worked with the industry to allow the same day recognition of ACH pulls to meet the requirement which has been very, very beneficial to improving the safeguard system.

There's almost no fails in the ACH system. It's 99.9 percent of an ACH that you pull arrives the next morning. So it's a safe system. Also the recognition of depositing checks locally at an IBs office through electronic scanner devices provided by the banks has been a great help.

So we've done some things as an industry and the Commission that have really tightened things up and allowed farmers and ranchers to meet the rules and not fall into the category of being under margined where we have capital charges.

Now, a couple of things before I move to capital charges is that farmers and ranchers, I think we all agree, have an important role in our economy here in the United States.

They work in local communities. And their bankers are local banks. So many times when they request a wire from their bank, it goes through a correspondent bank. And then the correspondent bank pushes it onto the FCM.

So there's a process there that takes place. And they don't get to the top of the list necessarily. They put their wire request in, the local bank, you know, it may be a small bank, takes them time to move it to the correspondent bank. And then it's in the queue to get to the FCM. So it's a process.

But before they even put the wire in, you know, the farmers and ranchers have to get approval from their local banker who provides financing for their farming activities.

So in most cases, a farmer is getting their margin funding from a banking relationship, a lending relationship. So there's an approval process there and then the queue up on the wires as I described earlier. So the T1 at 6:00 is really important.

Now, the capital charge situation where you tighten that up has also strengthened the system quite a bit. And it's given FCMs the ability to push down to the customers that, in a practical sense, that this isn't our rule. This is a rule that the Commission has put forth, and we're just enforcing the rule.

You still have bad behavior in some cases. And FCMs always make decisions of whether a customer should be asked to be let go. But what we have found is we put in some meaningful penalties for customers not meeting their margin calls in a timely fashion.

And when we first put the penalties in, they did add up to a material amount of funds. But over time the customers' behaviors have changed. And now those amounts and those penalties are de minimis.

So all of this has added up to making the system tighter, to educating the non-institutional type customers that there are rules and regulations that they need to abide by.

And I think overall, when you think of the totality of the customer enhancement regime, we're light years ahead of where we were. It's sound, and moving T1 at 6:00 earlier in the day is not practical for the reasons I set forth operationally. Thank you for your time.

MR. SMITH: We'll recognize Bill and then Todd.

MR. THUM: I just wanted to build on what has been said. I think it is important to look at the effect of the multi-layer of enhanced protection that has been provided by the CFTC.

And remember that where we started in the proposed rule for residual interest, the requirement was that the margin needed to be maintained at all times.

So effectively, I think the CFTC struck a really clear balance between the interests of market participants, such as ourselves, to avoid having our margin put at risk by having other customers introduce short falls into the system while at the same time recognizing the operational complexities of getting the notices out, having them verified and confirmed.

So, you know, while we, in our comment letter from 2013, did advocate for a much more accelerated timeframe from T+1 at 6:00 p.m., we did, in the final rule we're certainly comfortable with the T+1 at 6:00 p.m..

And as I said earlier, you know, our concern really at this point is both operational, and if we were to move it earlier in time, because the CFTC has still not addressed LSOC within the futures context, if we were required to front the margin, to pre-fund the margin, that margin would be at risk.

So I think it -- we've become more comfortable with the T+1 at 6:00 p.m., given all the other protections that the CFTC has enacted.

MR. KEMP: So Gerry took you into the real world. Maybe I can take you a little farther into the real world. National Grain and Feed has about 1,000 member companies nationwide, about 7,000 facilities that handle, and store, and process grains and oil seeds.

Our members, it's important to note, we've got lots of different folks around the table there. But our members are not speculators, they're not investors. They're business people and, in many cases, small business people who are managing their business risk through futures markets. These are the traditional hedgers for decades and decades since time began.

We had a couple of hundred firms that were deeply affected by MF Global. We are all about customer protection, and we do believe a lot of the protections that have been mentioned here were very productive and useful.

We have never believed that the threat of pre- margining adds customer protection to the system. In fact, from a customer perspective that only increases customer risk. It decreases customer protection.

We did some calculations back a couple of years ago when this was being discussed about the amount of money that the average grain elevator might be required to pre- fund if we went earlier in the day than 6:00 p.m. on T+1.

And for an average grain elevator, about twice as much money would need to be sent to the

FCM, probably borrowed and then not available to fund, hiring to fund other capital expenditures.

We certainly support strongly the 6:00 p.m. Deadline on T+1. We think it's worked well for the FCMs and for the customers. And appreciate you taking a look at it today.

MR. SMITH: Debbie?

MS. KOKAL: Thank you. Just a little bit from the regulatory perspective. When the residual interest requirement went into effect, and also all the other customer enhancements, the risk-based examinations that are performed of every FCM were updated. These things are reviewed on a consistent basis.

The residual interest calculation is not easy. It's complex. And we go out and we work with the firms to make sure they're picking up all the under margin accounts, are they accounting for disbursements, wires in on a timely basis.

We recognize when we work with the firms, we're not only looking at the calculation, we're asking about their procedures, right.

And I think to Mark's point, there are firms that look at it first thing in the morning and start monitoring it and other firms, at various points during the day. Because it's not something you can look at at 6:00 and be in compliance with. You have to make sure you're going there.

Other firms have adopted very conservative procedures. They're including their debits in it. They're not accounting for wires coming in or wires coming in after certain times unless it's needed. So the firms are very active in looking at it throughout the day.

And just kind of to build on all the customer enhancements, and everyone says don't look at this in isolation, it is just one of the layers. And Maureen talked about it.

Not even included in the regulations, but the NFA and the CME have implemented requirements that all FCMs have to authorize all their third party depositories to confirm, directly to us on a daily basis, their customer funds.

We take the confirmation, and we compare it to what the firms submit to us. And based on materiality and thresholds, we work with the firms. And as these firms know, they're probably in contact with us more than they want. So it's been a very good and immediate verification.

Just to give you an idea, January and February of this year, on average, we confirmed over, just find the amount, $257 billion on a daily basis. This is from 200 different depositories confirming over 3,500 accounts with us. So it is a very strong enhancement that has been made. So that's it.

MR. SMITH: Tom?

MR. KADLEC: Thank you, Tom. I think following Debbie, I think it's important to point out there is a healthy dialogue going on between the DSROs and the FCMs. And that is enhancing the customer protection rules which ADM Investor Services supports.

T+1 is working. I agree with Gerry's

comments wholeheartedly. Our business models are similar. Eighty- five to 90 percent of our business is agriculturally related.

Interestingly, some statistics, our institutional and commercial accounts always wired and they always will wire. The compression has happened in the mid-tier and the smaller farmer, the smaller rancher.

We receive approximately 95 percent, 92 to 95 percent of our one-day wires. That's very consistent in previous years. And if you look back at the five and four day calls, those have all now -- and three and two day calls -- and in terms of materiality are very small. In fact, arguably they're not material in terms of our capital.

In other wire statistics, at noon we receive about 50 percent of the T+1 wires. By 2:00 p.m. we receive about two-thirds, about 65, 66 percent, statistical sampling that our Treasury group does. And it gives you an idea of the sophisticated Treasury groups of our fund complex here, no analyzer global positions and no wire out money any time between 11:00 and 1:00 p.m. It works its way through the system, and it hits our books.

We have 16 banks across the United States that we've documented that support the agricultural community. About half are in the Central time zone, about a quarter are in the Western or Mountain Time zone.

They don't start wire processes until noon Central time zone. The West Coast banks don't even send wires until 2:00 p.m. That's part of the operational challenge that Gerry mentioned.

And these are important, very strong financial institutions to our core customers. So if T+1 was, if we compressed the time, that would be a challenge. We would have to convince those banks to do their hedge analysis, the credit analysis earlier which is a key component of customer safety.

The bankers truly -- in the credit analysis in which they do for the hedge community is an important function of risk.

So I think T+1 is working very well. I think the customer protection rules have worked. I think there are seven or eight of them, Debbie, at least.

MS. KOKAL: At least.

MR. KADLEC: At least. And they have all added up to a reasonable success story. And I would emphasize the burden of this cost has not been on the large financial institutions. The burden of this timeframe has been on the smaller agricultural farmers and ranchers.

Instead of mailing checks, we require them to wire. We require them to send us an ACH which is not free. And we're working with community banks to lower their costs as part of this.

And if we would condense the timeframe earlier and even think about pre-funding, I have not had one customer ask me to pre-fund their margins ever to enhance their customer safety of their assets.

So thank you for this forum, and I look forward to other comments.

MR. ROGIC: Could I just add on to -- I think it's, again, I commend this process. I think we are obviously dealing with a, you know, seemingly mundane provision but which has great repercussions on kind of the way the system works as a whole.

And we are, you know, we are looking at the costs and benefits. I mean, the initial proposal that, you know, that have at all times language, looks like we abandoned that. We're not going to, you know, another, the kind of inspection.

And we are, you know, we are looking into whether we should -- whether that works or whether, you know, additional adjustments are needed. And it could be very well that, you know, T+1 at 6:00 p.m. works, and it balances appropriately the risks, you know, and the costs to the industry.

But I think before we adopt that, we

should really, you know, examine. Can we say that, you know, that 1.22(a) where, you know, an FCM cannot use one customer's funds to margin other customers' positions, is that being fulfilled by having the residual interest deadline 12 hours after the time of settlement?

So, you know, the margin payment has to go out, I presume, early in the morning every day. At that point in time, the FCM could be under margined. If it does not have to contribute its own capital at that point in time, what happens in those 12 hours during the trading day until, you know, customer margin comes in and the reconciliation is made at 6:00 p.m.?

If we stay with that, with T+1 at 6:00 p.m., we have to, you know, maybe acknowledge that then, you know, there is a certain time, you know, during the day at which the FCM is not in compliance with 1.22 (a). And that might be a compromise.

But I think we need to really -- and again, I welcome the study, and I welcome the analysis. Because I think that has to be addressed in the final outcome.

You know, I don't have sort of a preset position. I'm looking at the cleared swaps market where we have the, you know, we have the FCMs required to post residual interest at the time, before they send a, you know, before they settle with the DCO. That seems to be working.

The swaps market is, I think, in terms of notional is, you know, multiples greater than the futures market. I guess, you know, greater numbers of initial -- greater amounts of margin involved, that has worked well without, you know, any sort of disruptive needs to pre-fund and so on. So I think that also could be a factor in the analysis. Thank you.

MS. BURKE: Can I just make one point to make sure everyone is aware of it? So, you know, there are two components of the margin deficiency. There is the net liquidating deficit. That's where the account has a deficiency or where the FCM has a receivable from the client.

And any net liquidated deficit not secured by readily marketable securities, the FCM needs to have enough residual interest to cover that at all times.

So that's the, you know, real exposure from an FCM to the client. That's the receivable. And that's at all times. And then the margin deficiency is the -- for every position there's a margin obligation. And that margin deficiency is supposed to -- or the margin requirement is supposed to represent the risk.

So in the event of a client default, the FCM would be able to liquidate the client's position and have enough margin on deposit so they do not impair their own capital base and, therefore, potentially have exposure, other clients would have exposure to that FCM.

So that is the way it's structured today. And it has always been there. You had to have enough of your residual interest to cover the net liquidating deficit. So that's in place, just in case there's semantics there. I just wanted to make sure you understand that. Okay.

MR. SMITH: Chairman Massad?

CHAIRMAN MASSAD: Thanks, Tom. Just to follow-up, particularly on Gerry, and Todd, and Tom's comments, I appreciate your comments that if the deadline were accelerated that that could be a problem, particularly for smaller participants in these markets, particularly to the extent they might have to go through a local bank on to a correspondent bank.

Because I think I'm certainly, and I think my fellow Commissioners also are concerned that, you know, we make sure that these markets continue to be accessible, particularly for smaller participants.

But I take it from what you've said that you're not seeing, with respect to where we are today at least, the T+1 at 6:00 p.m., this set of rules.

You know, we haven't seen a lot of smaller participants drop out or say, you know, I can't comply with this. So I'd appreciate just making sure I've heard you correctly in that regard.

And to the extent that some of them can't, it's a small enough -- I think, Tom, as you said, it's a small enough amount overall that, you know, maybe you can cover that.

MR. KADLEC: I would agree that we have not seen a reduction in our small retail mid-tier hedge customers based on these new rules. There's been an awful lot of sweat equity put into explaining why this change has occurred and the costs involved with it. But that's the normal ebbs and flows of any change in any business.

It's a challenge when you start talking about pre- funding at the lower level. I'd be more than happy to pre- fund some of our larger accounts since they seem to be concerned about it. But no, I have not seen any reduction of our business.

MR. SMITH: Gerry?

MR. CORCORAN: I concur with Tom. It hasn't had a material impact on small farmers or ranchers. They certainly can comply wholeheartedly.

One topic that does impact folks in the farmer community and agricultural community is when we have exchanges open but the banks closed. That's a real situation that should be addressed.

And also overseas when you have your customers who maybe have a week holiday in China, when they have a week off for New Years, we do a ton of pre-funding at that point, because they do have clients in the marketplace.

So I think there's still some analysis work we can do on how we can tighten up those gaps in kind of the global banking system and holiday system that should be addressed.

We had, in 2010, a major farm report that came out I think the day, Columbus Day actually. And I believe it was a report that was a very bullish report on all the hedgers had no capability of meeting their margin call that day.

And so I think we have to look closely at when the exchanges are opened and the banks are closed to ensure that we can get adequate liquidity.

Now, there has been accommodations made for the FCMs in the industry so that you don't have a per se rule violation. But it's still a risk situation. And that can impact the smaller agricultural client as well.

MR. KEMP: I'd agree too, Mr. Chairman, that T+1 at 6:00 p.m. has worked well. You'll probably recall that there was a pretty broad coalition of production agriculture and agribusiness groups who were very concerned about this. And a lot of that simply was because of the added costs of moving funds more quickly.

I believe that there's probably been a fair amount of investment, not only at the FCM level but also customers working with the FCMs to get the funds in more quickly.

We've always felt strongly that you never want to get to the point where the costs become so burdensome that you drive farmers, and ranchers, and some of the very small retail hedgers out. Certainly that's the last thing we would want to do, reducing risk management options. We ought to be working to the contrary to preserve risk management to marketing and hedging options.

MR. BAKER: And just to add on to what Todd said, the National Pork Producers Council, we represent 68,000 pork producers across the country, both large and small.

And we think that the T+1 at 6:00 p.m. accurately balances the customer protection while at the same recognizing the burdens that it places on them.

We're afraid that moving it earlier in the day will force many of those farmers who use the markets and rely on the markets to hedge their risks, that it will remove them from the market.

And I look forward to continuing to work with you to make sure that those tools are still in place for them in the future.

MR. SMITH: Patrick?

MR. SHEEHAN: Yes. I also wanted to

echo Maureen's point, just focusing on the liquidating deficits. FCMs are required to cover those on a 24/7 basis. That hasn't changed. That's always been the case.

And I think it's also important to realize that the SEG requirements -- we're required to be in compliance from a SEG report perspective, segregating customer funds on a 24/7 perspective. And that's to ensure that we have enough funds locked up so we're able to basically pay back clients all the funds owed them. So the margin deficit I don't think should be confused with that aspect of it.

Additionally, I think, you know, we also believe that the 6:00 p.m. deadline has been a fair balance. And I think we get into, as we look at our client base, lots of concerns going into pre-funding just because of the overall process.

And I think folks have mentioned it earlier today, the fact that clients have a need and a duty to reconcile their positions, to deal with their custodians.

And that process, what we end up seeing is that it takes a number of hours before funds are able to be paid in during the settlement cycle. And really, that settlement cycle is a daily process that happens all day. It's not a single point in time during the day.

MS. FLAHERTY: Maybe I can ask a question of Debbie. I think a question was raised by one of the panelists about systemic risk.

And so this process, this timeframe has been in place for about a year and a half. And is there any increased systemic risk that maybe CME sees or doesn't see as a result of this timeframe or by not further compressing this time frame, if you have any views?

MS. KOKAL: I think, again, it's not looking at just this timeframe in isolation. It's looking at everything that has been adapted by the industry that's really served to increase the customer protections.

Compressing the timeframe down, I think the FCMs have very eloquently described the operational aspects, the increased cost, the capital, looking at will there be a consolidation of FCMs, will there be FCMs to service all market segments. Those, I think, are things that the Commission has to consider if they were to make any changes to compress it.

The other thing, just from a complexity standpoint, we talk about the cleared swaps at time of settlement. The 30.7 secured is at T+1 at 6:00. And that is staying. So if you change the customer SEG to T+1 at some other point in time, you're just adding more complexity.

These customers, in general, are not just trading SEG, they're trading their foreign markets as well. And they're meeting wires, one wire which is being put into both the SEG and the secured accounts. And I think you add a level of complexity for the FCMs and for the customers.

MR. SMITH: Bill?

MR. TIRRELL: Thanks, Tom. Actually, Debbie did a very good job of pointing out some of the items that I wanted to point out. But I want to also pick up on some comments made by Gerry as well -- to put in place over the last couple of years and the complexity of those regulations.

I think there's still an opportunity to continue to smooth out some of those rough spots that are out there, because there are some inconsistencies in the rules. There are some global implications that still need to be factored into the existing rules.

So I think at a point where we're starting to see the dust settle -- I think from the client side up to the FCM side to the regulator component of that -- I think we're starting to get fairly comfortable with the new regulations, and the implementation of those, and operationally and practically making those work.

But at the same time, there are still a lot of inconsistencies, a lot of unnecessary burdens built into the existing system.

So I think at this junction even contemplating adding more complexity, making more changes, you know, as was I think mentioned earlier, you know, there was quite a bit of work that was done by the various FCMs to educate their clients, both large and small.

You know, at least at Merrill Lynch the CSRs did a very good job in communicating with all our clients. I think the clients were well tuned into a lot of the initiatives that were out there.

Again, there's I think a great deal of operational risk if we start injecting more complexity, having more inconsistency with the timeframes before we have actually even kind of fixed some of the, or smoothed out some of those rough spots that still exist in the system today, so again, back to my operational risk comment earlier.

MR. SMITH: Todd?

MR. KEMP: Yes, maybe along those same lines, you know, thinking about systemic risk, one of the challenges that we've been giving some thought in our association is the operational and the financial challenges that FCMs have been faced with post-Dodd-Frank, so many new rules and regulations, so many new costs introduced into the system.

You know, here's another example, I think, where if we push it earlier in the day we force additional adjustment and expense, additional operational risk through changes in the way the system works.

We fear that some of the, you know, mid-sized to relatively smaller FCMs that are so important to serving agriculture could disappear.

And if you want to think about systemic risk, concentrating that sector activity into a smaller number of firms, reducing service available to the relatively smaller customers, you know, we think that's worth consideration when you think about systemic risk.

MR. BEALE: I just wanted to ask one quick question on a point that I think was raised here. What is it about LSOC and swaps in the time of settlement that is occurring there compared to how the operations of the futures are?

Can any of the FCMs kind of chime in

there a little bit about those differences? Is it because the customer base is just slightly different in futures versus swaps that make that time of settlement easier to obtain in swaps? So thanks.

MR. KADLEC: Very brief, two basic differences, the sophistication of customer, there's no comparison if you look at the 50,000 agricultural customers that we have on our books, and Gerry's customers, to global financial institutions which are the primary users of the swaps market, from my perspective, and the history.

There's a long history of the futures markets doing business a certain way that was materially changed 14 or 18 months ago. LSOC, it's a brand new business, brand new rules, brand new educational process, again, from my perspective. And it's a fairly wide difference.

MR. SMITH: Maureen?

MS. BURKE: Sure. Just to touch on the last point that Tom had mentioned is, you know, LSOC, we spent a tremendous amount of time on LSOC, getting ready for it from an operational, technology, working with the industry.

I don't know if you recall the many, many meetings we had with Bob Wasserman on the white board. Hours and hours were spent on that.

And as mentioned, it's a new business building up over time. So it's a massive fundamental difference in building up a business and the infrastructure to support that business.

So when a client comes in and puts a trade on for cleared swaps, it goes in through the SEF. All the client information is sent directly from the SEF to the clearing house. So the clearing house has all of those details.

And then when they're monitoring LSOC compliance -- there's also opportunities, you know, LSOC with Excess -- it's a fundamental difference. The way it's structured in futures today is a customer omnibus account. There's not the same transparency.

So if we were going to move to an LSOC

type of structure, it would require a tremendous amount of technology enhancements, not only at the FCM but also at the clearing houses, and time to implement -- and extended, much greater time to implement than what we put in place for OTC cleared. And it goes back to the cost benefit.

And as was mentioned earlier, you know, well, where do those costs go? We know ultimately costs will be borne down to the client because the FCM, in order to stay in business, and a Board of Directors to support the business, you know, there needs to be a return on equity.

So it's a massively different animal. It's like comparing apples and oranges, and to go back and reverse engineer what we have in place for the futures industry.

MR. THUM: Yes. And if I could just build on that, I think the history of the swaps market really plays into it as well. The whole infrastructure from the early '90s has been on a margin basis. And certainly in the last really ten or five years, I guess, the market really has been moving collateral same day so, you know, hence our concerns.

While we appreciated the regulatory move of the most standardized swaps into the cleared space, we were faced with this concern where we had margin being calculated daily, being transferred for asset managers like Vanguard in the 40 Act space.

The margin actually is held by the fund's custodian. And it's very secure. This is no fellow customer risk. There's really no risk at all with respect to that margin. So watching the margin then move into the cleared swap space onto the futures model, you know, we were very concerned.

So we liked some of the protections of the futures model, but the lack of protections, or let's say the more cumbersome infrastructure perhaps associated with the futures market, really didn't provide the same level of protection. So hence we pressed very aggressively for LSOC.

But when you're asking about the timing

and how it's different for swaps, the swaps' infrastructure at most swaps users has been used to same day transfers for quite some time, you know.

And I've mentioned repeatedly, you know, the thought of LSOC plus Excess could conceivably allow a market participant to have Excess margin to pre-fund trading with some degree of comfort that the margin's not put at risk.

On the futures side, that infrastructure's not there. We're quite some way. Certainly we don't have any rules and, you know, I wonder to what extent the CFTC might be considering that.

But we'd have to really develop not only the rule set but also the infrastructure for it. And it would be a significant change.

So, you know, again, I think in striking the balance between risk mitigation, having adequate margin in the system while at the same time recognizing the operational complexities, the T+1 at 6:00 p.m. for futures makes a lot of sense.

Whereas it's easier to get the margin, you know, out of our shop and into the FCM's hands on the same day basis on the swap side.

MR. SMITH: This has been touched upon, but I just wanted to open up the floor in case anyone has some additional comments.

One of the things that the regulation directs us to look at is not just the time of settlement, moving it from T+1 at 6:00 to time of settlement, but some other point earlier in the day but not necessarily the time of settlement.

Again, it has been touched on, but does anyone want to offer any further comments on that?

MR. SHEEHAN: I can make a few comments. I think we've looked at and track our customer margin payments on a daily basis. And this gets into that whole settlement process that our clients go through each day dealing with their custodians.

And by and large, you see most of the flow from margins coming in in that 3:00 to 5:00 p.m. timeline. So it's later in the day.

And discussions with clients, the common answer is that they need to raise their cash, liquidate some short term investment to enable their bank to fund and send out those payments.

So that's what they're doing throughout the day. And that's why you see the funds coming in later in the day as opposed to directly at 10:00 a.m. in the morning.

MR. TIRRELL: And I would concur. We're seeing most of the flow in the afternoon, later in the afternoon, as Patrick indicated.

But to Mark's point earlier, this is not a point in time that you just start doing things. There's a process that takes place throughout the day working up to that and even after that point in time to continue to evaluate the information.

Because at the point in time that you're making a decision on your funding, you still have outstanding items coming in that you need to reconcile. And I think most FCMs are good players, and they're going to be conservative in their approach to all of that.

So there is a continuous process throughout the day, even after the determination has been made from a funding standpoint.

So, you know, for all the reasons we talked about earlier, even considering moving it up a couple of hours also introduces a lot more risk into the system and, I would say, for virtually no benefit.

MR. SMITH: Regina?

MS. THOELE: I don't want to repeat a lot of the comments that have already been said, but I think, as Debbie pointed out, you know, we've been working very closely with our FCMs. The daily confirmation system has worked very well.

I think in a particular day -- and I think the FCMs did a good job of trying to work with their customers in educating them in the beginning so that when the rule went into play we didn't have issues. And I think it has worked well, I think, even more so during the day.

You know, if it's a volatile market,

we'll get on the phone with our FCMs, you know, especially if it's in a particular market that we know that FCM deals in, and make sure things are, you know, that they are talking to the customers, the customers are sending in the money. So I think right now it has worked well. And the status quo we would be fine with.

MR. SMITH: Bill, do you have any more comments? You have your card up or -- I'm sorry, I wasn't sure.

I think that sort of runs through the list. But we'll open the floor for any other additional comments or thoughts on the residual interest or anything else anyone might want to raise.

MR. BEALE: Yes. Did any of the Commissioners have any questions or anything?

MR. THUM: I just have a question. So, you know, we've talked about LSOC for futures. Has the staff given thought to the possibility of evaluating whether that's a prospect in the future?

And I ask for a couple of reasons. You know, clearly we made tremendous progress for cleared swaps. Futures, that's still an open issue.

We're looking ahead to the SEC and how the SEC's going to be handling margin for cleared security-based swaps. And the approach within the SEC is not at all as protective an environment as that that the CFTC has provided us.

So, you know, we're really looking at all avenues of where our margin is for products that are very similar in many respects in terms of their risks and why there would be different level of protection with respect to the margin associated with those products.

MS. FLAHERTY: I can try and answer that question. Hopefully, I think at this point what we are focused on is this particular issue of T+1 at 6 o'clock and, as for the regulation, to do a study on that. So I think, given our resources, that is our current focus.

MR. SMITH: Yes, Commissioner?

COMMISSIONER GIANCARLO: Just one observation and that is that the swaps market remains an ECP market. And the futures market is a retail market.

And so as we think about similarities, I think we also need to bear in mind the regulatory difference of those markets. And the difference, I think -- some of the gentlemen mentioned that point, but I think it needs to be borne in mind that you can only get so much similarity, because you just have different participants in these market places.

MS. FLAHERTY: Does anybody else have any comments or questions that they would like to share with the panelists?

Okay. Some housekeeping matters before we adjourn. Just a reminder that the public comment portal is open on the Agency's website for any comments. We'll be posting within the next week or so the video recording of today's round table. We'll also post the transcript when we receive it and review it.

And again, on the next steps, as we said, staff is directed to prepare a study on this important topic that we obviously all take very seriously. We think the information that was provided today is very meaningful and helpful.

We want to thank each of the participants for coming and participating. Thank you to the Chairman and the Commissioners for being here. So with that, thank you. And we're adjourned.

(Whereupon, at 11:18 a.m., the PROCEEDINGS were adjourned.)

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CERTIFICATE OF NOTARY PUBLIC

DISTRICT OF COLUMBIA

I, Stephen K. Garland, notary public in and for the District of Columbia, do hereby certify that the forgoing PROCEEDING was duly recorded and thereafter reduced to print under my direction; that the witnesses were sworn to tell the truth under penalty of perjury; that said transcript is a true record of the testimony given by witnesses; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this proceeding was called; and, furthermore, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

(Signature and Seal on File)

Notary Public, in and for the District of Columbia

My Commission Expires: May 31, 2018