Commodity Futures Trading Commission
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Regulation 1.25 Q & A

What is the goal of the proposed rulemaking?

In proposing 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 proposes to (1) narrow the scope of investment choices; (2) raise certain standards imposed on permitted investments individually and on a portfolio basis, and (3) increase safety by promoting diversification. The Commission has endeavored to tailor its proposal 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 proposal limit the collateral that may be used by customers of an FCM?

No. This proposal 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 proposal contain any amendments affecting investments money market mutual funds (MMMFs)?

Yes. Investments in MMMFs would be subject to a 10% instrument-based concentration limit, meaning that an FCM or DCO may invest a maximum of 10% of its total assets in segregation in interests in MMMFs. Additionally, investments in MMMFs would be subject to a 2% issuer-based concentration limit, meaning that an FCM or DCO may invest a maximum of 2% of its total assets in segregation in any one family of funds.

The proposal also contains two technical amendments. First, the rulemaking would clarify 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 would update and clarify the next-day redemption requirement for MMMFs (as well as include an appendix with safe harbor language for MMMF prospectuses).