

requirements that records be searchable and kept in a form and manner that allows for identification of a particular transaction, thus those requirements apply to FCMs, RFEDs, IBs, and members of DCMs and SEFs that are required to register with the Commission, such as commodity trading advisors (CTAs).

Section (a)(6) of the proposal requires covered entities to retain Rule 1.35 records in accordance with Rule 1.31. Rule 1.31 (which applies to all books and records required to be kept by the Commodity Exchange Act and Commission regulations) contains detailed requirements regarding the form and manner in which records must be maintained and produced. It states, among other things, that paper records shall be kept in their original form, and that electronic records shall be kept in their native file format. *See* Rule 1.31(a)(1). It also requires that records be produced “in a form specified by any representative of the Commission.” *Id.* Thus, Rule 1.35, on the one hand, identifies the particular records that must be kept, while Rule 1.31, on the other hand, sets the form and manner in which such records must be maintained and produced. But the proposal mixes things up by adding to Rule 1.35 (where they do not belong) new requirements for most covered entities regarding form and manner—that the records allow for identification of a particular transaction and be “searchable,” a term that is not defined.

While it is likely that electronic records kept in their native file format are searchable, it is not clear what “searchable” means when it comes to paper records such as canceled checks, signed account agreements, and paper orders. Does the proposal require that a record of a wire transfer received by an FCM to cover margin for multiple positions be kept in a form and manner that allows for identification of each potential transaction? Will a small FCM embedded in a grain elevator have to keep copies of checks received from farmers in some sort of searchable format tied to specific transactions? What if the farmer’s check mistakenly references the wrong transactions and the FCM doesn’t catch it? Is the FCM now in breach of our rules? Will FCMs and IBs need to hire a paper records “searchability” staff just to tie records to individual transactions in the event, but not the certainty, that someday the CFTC will want those records? At what cost to them and to American markets and end-users?

I am also concerned that although the proposal provides relief to asset managers, such as CTAs, from the oral record keeping requirements, its adoption would continue to burden them with unnecessary costs and potentially discourage them from becoming members of SEFs. A comment letter filed by SIFMA’s Asset Management Group after the public roundtable stated, for example, that a requirement similar to Rule 1.31’s requirement that any digital storage medium or system must “preserve the records exclusively in a non-rewritable, non-erasable format,” *see* Rule 1.31(b)(1)(ii)(A), also known as “WORM,” was rejected by the Securities and Exchange Commission when considering amending its own recordkeeping requirements for registered investment advisers and registered investment

companies because the costs associated with preserving records in that manner outweighed the benefits. SIFMA AMG Letter (Apr. 17, 2014), available at: <http://www.sifma.org/issues/item.aspx?id=8589948677>.

I encourage all affected parties to give us detailed comments on the proposal, with emphasis on the intersection between Rule 1.35 and Rule 1.31, and how the proposed searchability and identification by transaction requirements will work in practice. I encourage the public to make us listen once again to their concerns about the costs and benefits of this particular rule set.

I am also interested in answers to the following questions:

1. The proposal excludes unregistered exchange members from the requirement to retain text messages. Is the scope of this exclusion appropriate? Do the impediments for storing text messages in a searchable format extend to persons beyond unregistered members?

2. While unregistered members would not be required under the proposal to keep records in a searchable format, or in a form and manner that allows for identification of a particular transaction, they still would be required to keep all Rule 1.35 records, including all written communications (except text messages) provided or received concerning quotes, solicitations, bids, offers, instructions, trading, and prices *that lead to* the execution of a transaction in a commodity interest and related cash or forward transactions. FCMs, IBs, RFEDs and registered exchange members must keep such records (including text messages) in a searchable format. What are the costs associated with keeping such records in accordance with Rule 1.31? *Is leading to the execution of a transaction* the appropriate scope of this particular recordkeeping requirement? Should the scope be narrowed or broadened? If so, why?

3. Are there any technological impediments to the oral recordkeeping requirements of Rule 1.35(a)?

4. Is there a need to revise Rule 1.31 given advancements in technology and current business practices?

Although I do not support today’s proposal, I am hopeful that after thoughtful consideration of the comments, the Commission will promulgate a final rule that is precise in its meaning and terms and that appropriately balances compliance costs with the need to effectively regulate the markets we oversee.

[FR Doc. 2014–26983 Filed 11–13–14; 8:45 am]

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COMMODITY FUTURES TRADING COMMISSION

17 CFR Part 1

RIN 3038–AE22

Residual Interest Deadline for Futures Commission Merchants

AGENCY: Commodity Futures Trading Commission.

ACTION: Notice of proposed rulemaking.

SUMMARY: The Commodity Futures Trading Commission (“Commission” or “CFTC”) is proposing to revise the Residual Interest Deadline in Commission Rule 1.22. The amendment would remove the December 31, 2018 termination date for the phased-in compliance schedule for futures commission merchants (“FCMs”) and provide assurance that the Residual Interest Deadline would only be revised through a separate Commission rulemaking.

DATES: Comments must be received on or before January 13, 2015.

ADDRESSES: You may submit comments, identified by RIN 3038–AE22, by any of the following methods:

- Agency Web site, via its Comments Online process: <http://comments.cftc.gov>. Follow the instructions for submitting comments through the Web site.

- Mail: Send to Christopher Kirkpatrick, Secretary of the Commission, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street NW., Washington, DC 20581.

- Hand Delivery/Courier: Same as Mail, above.

- Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions for submitting comments.

Please submit your comments using only one of these methods.

All comments must be submitted in English, or if not, accompanied by an English translation. Comments will be posted as received to <http://www.cftc.gov>. You should submit only information that you wish to make available publicly. If you wish the Commission to consider information that may be exempt from disclosure under the Freedom of Information Act, a petition for confidential treatment of the exempt information may be submitted according to the procedures set forth in § 145.9 of the Commission’s regulations.¹

The Commission reserves the right, but shall have no obligation, to review, pre-screen, filter, redact, refuse or remove any or all of your submission from www.cftc.gov that it may deem to be inappropriate for publication, such as obscene language. All submissions that have been redacted or removed that contain comments on the merits of the rulemaking will be retained in the public comment file and will be considered as required under the Administrative Procedure Act and other

¹ Commission regulations referred to herein are found at 17 CFR Ch. 1 (2012). Commission regulations are accessible on the Commission’s Web site, www.cftc.gov.

applicable laws, and may be accessible under the Freedom of Information Act.

FOR FURTHER INFORMATION CONTACT:

Division of Swap Dealer and Intermediary Oversight: Thomas Smith, Deputy Director, 202–418–5495, tsmith@cftc.gov; Jennifer Bauer, Special Counsel, 202–418–5472, jbauer@cftc.gov; Joshua Beale, Attorney-Advisor, 202–418–5446, jbeale@cftc.gov, Three Lafayette Centre, 1155 21st Street NW., Washington, DC 20581.

Division of Clearing and Risk: M. Laura Astrada, Associate Chief Counsel, 202–418–7622, lastrada@cftc.gov, or Kirsten V. K. Robbins, Special Counsel, 202–418–5313, krobbins@cftc.gov, Three Lafayette Centre, 1155 21st Street NW., Washington, DC 20581.

Office of the Chief Economist: Stephen Kane, Research Economist, skane@cftc.gov, 202–418–5911, Three Lafayette Centre, 1155 21st Street NW., Washington, DC 20581.

SUPPLEMENTARY INFORMATION:

I. Background

On October 30, 2013, the Commission amended Regulation 1.22 to enhance the safety of funds deposited by customers with FCMs as margin for futures transactions.² The amendments require an FCM to maintain its own capital (hereinafter referred to as the FCM's "Residual Interest") in customer segregated accounts in an amount equal to or greater than its customers' aggregate undermargined amounts.³

If an FCM is required to increase its Residual Interest as a result of customer undermargined accounts, the FCM must deposit additional funds into the customer segregated accounts by the specified Residual Interest Deadline.⁴ The Commission established a phased-in compliance schedule for Regulation 1.22 with an initial Residual Interest Deadline of 6:00 p.m. Eastern Time on the date of the settlement referenced in Regulation 1.22(c)(2)(i) (the "Settlement Date"), beginning November 14, 2014.⁵

In addition, the Commission directed staff to publish for public comment a report (the "Report") addressing, to the

extent information is practically available, the practicability (for both FCMs and customers) of moving the Residual Interest Deadline from 6:00 p.m. Eastern Time on the Settlement Date, to the time of settlement or to some other time of day.⁶ The Report is also to address whether and on what schedule it would be feasible to move the Residual Interest Deadline, and the costs and benefits of such potential requirements.⁷ The Commission further directed staff to solicit public comment and conduct a public roundtable regarding specific issues to be covered by the Report.⁸ The Report is to be completed by May 16, 2016.⁹

Within nine months after the publication of the Report, the Commission may, by Order, terminate the phase-in period, or determine that it is necessary or appropriate in the public interest to propose through a separate rulemaking a different Residual Interest Deadline.¹⁰ Finally, absent Commission action, the phased-in compliance period for the Residual Interest Deadline will terminate on December 31, 2018, and the Residual Interest Deadline will change to the time of settlement on the Settlement Date.¹¹

II. Discussion

As noted above, absent Commission action, the phase-in of the compliance period for the Residual Interest Deadline will automatically terminate on December 31, 2018, and change to the time of settlement on the Settlement Date. The Commission is proposing to revise Regulation 1.22 to remove the December 31, 2018 automatic termination of the phase-in compliance period. The proposal would instead provide that the Residual Interest Deadline would remain at 6:00 p.m. Eastern Time, unless the Commission takes further action via publication of a new rule.

The Commission is proposing to amend Regulation 1.22 in order to provide the Commission with a greater degree of flexibility to assess the issues and all relevant data associated with revising the Residual Interest Deadline. In this regard, the proposal would afford the Commission the opportunity to fully and carefully consider the views expressed during the public roundtable, the views and issues raised during the solicitation of public comments, and the results of the staff's Report, regarding

the practicability and costs and benefits of revising the Residual Interest Deadline without the constraints of an established regulatory deadline for Commission action. The Commission is also proposing to revise Regulation 1.22 to make clear that any subsequent revision to the Residual Interest Deadline may only be effected through a separate rulemaking.

The Commission notes that this proposal does not alter the requirement in Regulation 1.22(c)(3)(i) that, commencing November 14, 2014, all FCMs maintain the requisite Residual Interest in customer accounts by no later than 6:00 p.m. Eastern Time on the Settlement Date.

The Commission invites comments on all aspects of the proposed amendments to the phase-in compliance period, including the costs and benefits of this proposed change. For example, does the automatic termination of the phase-in compliance period serve any useful purposes, such as focusing attention on the Report, that the Commission should consider? At this time, are there indications that issues regarding the practicability and costs and benefits of revising the Residual Interest Deadline will require significant time to consider, such that the automatic termination of the phase-in compliance period would hamper consideration of those issues? What are the particular concerns, if any, suggesting that the automatic termination of the phase-in compliance period is inappropriate in the specific context of Regulation 1.22?

III. Cost-Benefit Considerations

Section 15(a) of the Commodity Exchange Act ("CEA") requires the Commission to consider the costs and benefits of its actions before promulgating a regulation under the CEA or issuing certain orders.¹² Section 15(a) further specifies that the costs and benefits shall be evaluated in light of five broad areas of market and public concern: (1) Protection of market participants and the public; (2) efficiency, competitiveness, and financial integrity of futures markets; (3) price discovery; (4) sound risk management practices; and (5) other public interest considerations. The Commission considers the costs and benefits resulting from its discretionary determinations with respect to the section 15(a) factors.

The proposed rule and the status quo baseline with which the costs and benefits are compared are similar. The baseline for this costs and benefits consideration is the status quo, in which

² Enhancing Protections Afforded Customers and Customer Funds Held by Futures Commission Merchants and Derivatives Clearing Organizations, Final Rule, 78 FR 68506 (Nov. 14, 2013) (amending 17 CFR Parts 1, 3, 22, 30 and 140).

³ See 17 CFR 1.22(c)(3)(i). As defined in Regulation 1.22(c)(1), a customer's account is "undermargined," when the value of the customer funds for a customer's account is less than the total amount of collateral required by derivatives clearing organizations for that account's contracts. See 78 FR 68513, n.30.

⁴ See 17 CFR 1.22(c)(3)(i). The term "Residual Interest Deadline" is defined in Regulation 1.22(c)(5).

⁵ See 17 CFR 1.22(c)(5)(ii)(A); see 78 FR 68578.

⁶ See 17 CFR 1.22(c)(5)(iii)(A).

⁷ *Id.*

⁸ *Id.*

⁹ *Id.*

¹⁰ See 17 CFR 1.22(c)(5)(iii)(B).

¹¹ See 17 CFR 1.22(c)(5)(iii)(C).

¹² 7 U.S.C. 19(a).

the 6:00 p.m. Eastern Time on the Settlement Date would apply until the Commission takes further action or, in the absence of further action, December 31, 2018. Inasmuch as the proposed rule would not change the settlement date, but would eliminate the December 31, 2018 deadline requiring FCMs to maintain sufficient Residual Interest in its customer accounts by the time of settlement on the Settlement Date, the Commission believes that there is not likely to be any material difference between this proposed rulemaking and the status quo baseline in terms of the first four section 15(a) factors.

With respect to the fifth section 15(a) factor, “other public interest considerations,” the Commission has considered that the presence of an automatic termination of the phase-in compliance period in the regulation may have beneficial effects. For example, the automatic termination of the phase-in compliance period may focus attention on the results of the Report and provide a timeline for the Commission’s consideration of issues about the Residual Interest requirement. On the other hand, the Commission has considered that time will be required to consider the Report and related roundtable and public comments, prior to any change in the Residual Interest Deadline. As it does not have relevant data to quantify a monetary value of the public interest considerations likely to be implicated by the proposed elimination of the December 31, 2018 deadline, the Commission has considered them qualitatively in reaching its preliminary decision to propose the elimination of the regulatory deadline. The Commission invites comment on the cost and benefit implications of all of the public interest considerations that are relevant to its proposal, as well as on the other section 15(a) factors.

IV. Related Matters

A. Regulatory Flexibility Act

The Regulatory Flexibility Act (“RFA”) ¹³ requires Federal agencies, in promulgating regulations, to consider the impact of those regulations on small entities. The Commission has previously established certain definitions of “small entities” to be used by the Commission in evaluating the impact of its rules on small entities in accordance with the RFA. ¹⁴ The proposed regulations would affect FCMs. The Commission previously has determined that FCMs are not small

entities for purposes of the RFA, and, thus, the requirements of the RFA do not apply to FCMs. ¹⁵ The Commission’s determination was based, in part, upon the obligation of FCMs to meet the minimum financial requirements established by the Commission to enhance the protection of customers’ segregated funds and protect the financial condition of FCMs generally. ¹⁶ Accordingly, the Chairman, on behalf of the Commission, hereby certifies pursuant to 5 U.S.C. 605(b) that the proposed regulations will not have a significant economic impact on a substantial number of small entities.

The Commission invites comments on the impact of this proposed regulation on small entities.

B. Paperwork Reduction Act

The Paperwork Reduction Act (“PRA”) provides that a Federal agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid control number issued by the Office of Management and Budget (“OMB”). This proposed rulemaking amends requirements that contain a collection of information for which the Commission has previously received a control number from OMB. The title for this collection of information is “Regulations and Forms Pertaining to Financial Integrity of the MarketPlace, OMB control number 3038–0024”. This collection of information is not expected to be impacted by the rule amendment proposed herein, as the calculations which are already reflected in the burden estimate are not expected to change, but the phase-in period for assessing compliance relative to such calculations is solely proposed to be altered. The PRA burden hours associated with this collection of information are therefore not expected to be increased or reduced as a result of the amendment proposed.

Accordingly, for purposes of the PRA, these proposed rule amendments, if promulgated in final form, would not impose any new reporting or recordkeeping requirements. The Commission invites public comment on the accuracy of its estimate that no additional information collection requirements or changes to existing collection requirements would result from the rules proposed herein.

List of Subjects in 17 CFR Part 1

Brokers, Commodity futures, Consumer protection, Reporting and recordkeeping requirements.

For the reasons discussed in the preamble, the Commodity Futures Trading Commission proposes to amend 17 CFR chapter I as set forth below:

PART 1—GENERAL REGULATIONS UNDER THE COMMODITY EXCHANGE ACT

■ 1. The authority citation for part 1 continues to read as follows:

Authority: 7 U.S.C. 1a, 2, 5, 6, 6a, 6b, 6c, 6d, 6e, 6f, 6g, 6h, 6i, 6k, 6l, 6m, 6n, 6o, 6p, 6r, 6s, 7, 7a–1, 7a–2, 7b, 7b–3, 8, 9, 10a, 12, 12a, 12c, 13a, 13a–1, 16, 16a, 19, 21, 23, and 24 (2012).

■ 2. In § 1.22, revise paragraphs (c)(5)(iii)(B) and (C) to read as follows:

§ 1.22 Use of futures customer funds restricted.

* * * * *

(c) * * *

(5) * * *

(iii) * * *

(B) Nine months after publication of the report required by paragraph (c)(5)(iii)(A) of this section, the Commission may (but shall not be required to) do either of the following:

(1) Terminate the phase-in period through rulemaking, in which case the phase-in period shall end as of a date established by a final rule published in the **Federal Register**, which date shall be no less than one year after the date such rule is published; or

(2) Determine that it is necessary or appropriate in the public interest to propose through rulemaking a different Residual Interest Deadline. In that event, the Commission shall establish, if necessary, a phase-in schedule in the final rule published in the **Federal Register**.

(C) If the phase-in schedule has not been terminated or revised pursuant to paragraph (c)(5)(iii)(B) of this section, then the Residual Interest Deadline shall remain 6:00 p.m. Eastern Time on the date of the settlement referenced in paragraph (c)(2)(i) or, as appropriate, (c)(4) of this section until such time that the Commission takes further action through rulemaking.

Issued in Washington, DC, on November 3, 2014, by the Commission.

Christopher J. Kirkpatrick,
Secretary of the Commission.

Note: The following appendices will not appear in the Code of Federal Regulations.

¹³ 5 U.S.C. 601 *et seq.*

¹⁴ 47 FR 18618 (Apr. 30, 1982).

¹⁵ *Id.* at 18619.

¹⁶ *Id.*

**Appendices to Residual Interest Deadline for Futures Commission Merchants—
Commission Voting Summary and
Chairman's Statement Appendix 1—
Commission Voting Summary**

On this matter, Chairman Massad and Commissioners Wetjen, Bowen, and Giancarlo voted in the affirmative. No Commissioner voted in the negative.

**Appendix 2—Statement of Chairman
Timothy G. Massad**

I support the Staff's recommendation. One of my priorities has been to fine-tune our rules to make sure they work as intended and do not impose undue burdens or unintended consequences, particularly for the nonfinancial commercial businesses that use these markets to hedge commercial risks. The proposed amendment is consistent with that goal. It is designed to help ensure that the funds deposited by customers with Futures Commission Merchants, or FCMs, remain safe. It is not a major change, but it is significant in making sure that manufacturers, farmers, ranchers, and other companies that rely on the derivatives markets to hedge routine business risks can continue to use them efficiently and effectively.

The rule prohibits an FCM from using customer funds of one customer for the benefit of another customer. Last fall, the Commission amended Regulation 1.22 to further enhance the safety of such funds by making sure that customer accounts have sufficient margin. On any day when a customer is required to post additional margin but has not yet done so, the FCM must maintain its own capital—often referred to as the FCM's "Residual Interest"—in customer segregated accounts to make up the difference. The amendments provided that the FCM must deposit the additional funds by a specified deadline. Specifically, the amendments said that as of November 14, 2014, the deadline would be 6:00 p.m. Eastern Time on the settlement date. The deadline for the FCMs to post their capital affects the deadline for customers to increase their own funds.

The amendments passed last fall also provide that the Commission will conduct a study, and solicit public comment—including by way of a public roundtable—concerning the practicability, for both FCMs and their customers, of moving that deadline from 6:00 p.m. to the morning daily clearing settlement cycle or the time of settlement, which I will refer to as 9:00 a.m. for convenience. The amendments said the Commission would decide, within nine months after publication of the report, whether to move the deadline to 9:00 a.m. Finally, the amendments said that if the Commission failed to take any action, the deadline would automatically move to 9:00 a.m. as of December 31, 2018.

Today, we are making a minor, but important, change. We are proposing to eliminate the provision that says the deadline will automatically move to 9:00 a.m. as of December 31, 2018. The deadline will still move to 6:00 p.m. as of November 14 of this year, and we will still conduct a study of the practicability of making the deadline earlier.

An earlier residual interest deadline better protects customers from one another, in line with the statute, but we want to make sure we move deliberately so that the model works best for customers in light of all of their interests, since the deadline will affect how much margin customers have to post and when. Today's proposal will make sure that customers have an opportunity to not only review the study but give us input when we consider whether to accelerate the deadline.

[FR Doc. 2014-26978 Filed 11-13-14; 8:45 am]

BILLING CODE 6351-01-P

POSTAL REGULATORY COMMISSION

39 CFR Part 3050

[Docket Nos. RM2015-4; Order No. 2244]

Periodic Reporting

AGENCY: Postal Regulatory Commission.

ACTION: Notice of proposed rulemaking.

SUMMARY: The Commission is noticing a recent Postal Service filing concerning a Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Eleven). This document informs the public of the filing, invites public comment, and takes other administrative steps.

DATES: *Comments are due:* November 25, 2014. *Reply Comments are due:* December 11, 2014.

ADDRESSES: Submit comments electronically via the Commission's Filing Online system at <http://www.prc.gov>. Those who cannot submit comments electronically should contact the person identified in the **FOR FURTHER INFORMATION CONTACT** section by telephone for advice on filing alternatives.

FOR FURTHER INFORMATION CONTACT: David A. Trissell, General Counsel, at 202-789-6820.

SUPPLEMENTARY INFORMATION:

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I. Introduction

On November 4, 2014, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting that the Commission initiate an informal rulemaking proceeding to consider changes to analytical principles relating to periodic reports.¹ It identifies the

change filed in this docket as Proposal Eleven, Change in the Attribution of Debit and Credit Card Fees. *Id.*, Attachment at 1. The Postal Service concurrently filed one library reference, along with an application for nonpublic treatment.²

II. Summary of Proposal

Currently, the Postal Service records payments of debit and credit card fees in two general ledger accounts, assigns the fees to two different cost segments, and uses two different keys to distribute costs to products and services (total postal labor costs and window service volume variability). Petition, Attachment at 2. This results in approximately 42 percent of total debit and credit card fees being classified as volume variable. *Id.* The remaining 58 percent of the fees are classified as institutional costs, and are not assigned to any products. *Id.*

The Postal Service proposes replacing this methodology with one based on the revenue generated when debit or credit cards are used to pay the Postal Service for products or services. *Id.* Reports of revenue by product from each of the major revenue reporting systems (POS-1, etc.) will be combined and grouped by product. Each product's percentage of total revenue that is paid with debit and credit cards will then be calculated. The resulting percentage will serve as the distribution for debit and credit card fees. *Id.* The distribution key will be applied to the aggregate fee amounts from the general ledger accounts. *Id.* at 3. All debit and credit card fees will be captured in one cost segment (13.3). *Id.*

The Postal Service asserts that the proposed approach will allow it to more accurately assign debit and credit card fees to the products that were purchased using debit and credit cards. *Id.*

Cost impacts. The Postal Service states that as a result of no longer using window service volume variability, a higher percentage of debit and credit card fees will be attributed to the products or services that caused the fees. *Id.* The Postal Service states the current methodology attributed approximately \$83.3 million of \$200 million in debit and credit card fees to products and fees. *Id.* It states that under the proposed methodology, approximately \$196.9 million would be

² Notice of Filing of USPS-RM2015-4/NP1 and Application for Nonpublic Treatment, November 4, 2014 (Notice of Filing). The Notice of Filing incorporates by reference the Application for Non-Public Treatment of Materials contained in Attachment Two to the December 27, 2013 United States Postal Service Fiscal Year 2013 Annual Compliance Report. Notice of Filing at 1. See 39 CFR part 3007 for information on access to non-public material.

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Eleven), November 4, 2014 (Petition).