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Written comments and recommendations for the proposed information collection should be sent on or before August 24, 2018 to Nicholas A. Fraser, OMB Desk Officer, via email to [Nicholas\\_A\\_Fraser@omb.eop.gov](mailto:Nicholas_A_Fraser@omb.eop.gov), or by fax to 202-395-5167, marked to the attention of Nicholas A. Fraser.

**Marcie Lovett,**

*Director, Records and Information Governance Division, Office of the Chief Technology Officer, United States Patent and Trademark Office.*

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**BILLING CODE 3510-16-P**

## COMMODITY FUTURES TRADING COMMISSION

### Order Granting Exemption From Certain Provisions of the Commodity Exchange Act Regarding Investment of Customer Funds and From Certain Related Commission Regulations

**AGENCY:** Commodity Futures Trading Commission.

**ACTION:** Order.

**SUMMARY:** The Commodity Futures Trading Commission (“CFTC” or “Commission”) is issuing an order in response to a petition from ICE Clear Credit LLC, ICE Clear US, Inc., and ICE Clear Europe Limited (collectively, “the ICE DCOs” or “the Petitioners”) seeking an exemption permitting the investment of futures and swap customer funds in certain categories of euro-denominated sovereign debt. The Commission is also granting exemptive relief to expand the universe of permissible counterparties and depositories that can be used in connection with these investments given the structure of the market for repurchase agreements in euro-denominated sovereign debt.

**DATES:** Applicable as of July 25, 2018.

**FOR FURTHER INFORMATION CONTACT:**

Eileen A. Donovan, Deputy Director, (202) 418-5096, [edonovan@cftc.gov](mailto:edonovan@cftc.gov), Division of Clearing and Risk, or Lihong McPhail, Research Economist, (202) 418-5722, [lmcpfail@cftc.gov](mailto:lmcpfail@cftc.gov), Office of the Chief Economist, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street NW, Washington, DC 20581; or Tad Polley, Associate Director, (312) 596-0551, [tpolley@cftc.gov](mailto:tpolley@cftc.gov), or Scott Sloan, Attorney-Advisor, (312) 596-0708, [ssloan@cftc.gov](mailto:ssloan@cftc.gov), Division of Clearing and Risk, Commodity Futures Trading Commission, 525 West Monroe Street, Chicago, Illinois 60661.

**SUPPLEMENTARY INFORMATION:**

#### I. Background

By petition dated June 22, 2017, the Petitioners, all registered derivatives clearing organizations (“DCOs”), requested an exemptive order under section 4(c) of the Commodity Exchange Act (“CEA” or “Act”) permitting the ICE DCOs to invest futures and cleared swap customer funds in certain categories of euro-denominated sovereign debt. On December 15, 2017, the Commission published a proposed order that would grant the requested exemption (“Proposed Order”) and requested public comment on the Proposed Order.<sup>1</sup>

Section 4d of the Act<sup>2</sup> and Commission Regulation 1.25(a)<sup>3</sup> set out the permitted investments in which DCOs may invest customer funds.<sup>4</sup> Section 4d limits investments of customer money to obligations of the United States (“U.S. Government Securities”), general obligations of any State or of any political subdivision thereof, and obligations fully guaranteed as to principal and interest by the United States.<sup>5</sup> Regulation 1.25 expands the list of permitted investments but does not permit investment of customer funds in foreign sovereign debt.<sup>6</sup>

Regulation 1.25 previously included foreign sovereign debt as a permitted investment for customer funds.<sup>7</sup> In 2011, the Commission removed this option from Regulation 1.25, but also acknowledged that the safety of sovereign debt issuances of one country may vary greatly from those of another, and stated that it was amenable to considering requests for section 4(c) exemptions from this restriction.<sup>8</sup> Specifically, the Commission stated that it would consider permitting foreign sovereign debt investments (1) to the extent that the petitioner has balances in segregated accounts owed to customers or clearing member futures commission merchants in that country’s currency and (2) to the extent that the sovereign debt serves to preserve principal and maintain liquidity of customer funds as

<sup>2</sup> 7 U.S.C. 6d.

<sup>3</sup> 17 CFR 1.25(a) (2017).

<sup>4</sup> Although Regulation 1.25 by its terms applies only to futures customer funds, Regulation 22.3(d) requires that a DCO investing cleared swap customer funds comply with the requirements of Regulation 1.25.

<sup>5</sup> See 7 U.S.C. 6d(a)(2) (futures), (f)(4) (cleared swaps).

<sup>6</sup> Regulation 1.25 permits investment of customer funds in: (i) Obligations of the United States and obligations fully guaranteed as to principal and interest by the United States (U.S. government securities); (ii) General obligations of any State or of any political subdivision thereof (municipal securities); (iii) Obligations of any United States government corporation or enterprise sponsored by the United States government (U.S. agency obligations); (iv) Certificates of deposit issued by a bank (certificates of deposit) as defined in section 3(a)(6) of the Securities Exchange Act of 1934, or a domestic branch of a foreign bank that carries deposits insured by the Federal Deposit Insurance Corporation; (v) Commercial paper fully guaranteed as to principal and interest by the United States under the Temporary Liquidity Guarantee Program as administered by the Federal Deposit Insurance Corporation (commercial paper); (vi) Corporate notes or bonds fully guaranteed as to principal and interest by the United States under the Temporary Liquidity Guarantee Program as administered by the Federal Deposit Insurance Corporation (corporate notes or bonds); and (vii) Interests in money market mutual funds.

<sup>7</sup> See 17 CFR 1.25(a) (2005).

<sup>8</sup> Investment of Customer Funds and Funds Held in an Account for Foreign Futures and Foreign Options Transactions, 76 FR 78776, 78782 (Dec. 19, 2011).

required for all other investments of customer funds under Regulation 1.25.<sup>9</sup>

In connection with their proposal to invest customer funds in foreign sovereign debt, the ICE DCOs have also requested an exemption from Regulations 1.25(d)(2) and (7). Regulation 1.25(d)(2) limits the counterparties with which a DCO can enter into a repurchase agreement involving customer funds to a bank as defined in section 3(a)(6) of the Securities Exchange Act of 1934, a domestic branch of a foreign bank insured by the Federal Deposit Insurance Corporation, a securities broker or dealer, or a government securities broker or government securities dealer registered with the Securities and Exchange Commission or which has filed notice pursuant to section 15C(a) of the Government Securities Act of 1986. Regulation 1.25(d)(7) requires a DCO to hold the securities transferred to the DCO under a repurchase agreement in a safekeeping account with a bank as referred to in Regulation 1.25(d)(2), a Federal Reserve Bank, a DCO, or the Depository Trust Company in an account that complies with the requirements of Regulation 1.26.

## II. The ICE DCOs' Petition

The ICE DCOs request a limited exemption from section 4d of the Act and Commission Regulation 1.25(a) to invest euro-denominated customer funds in sovereign debt issued by the French Republic and the Federal Republic of Germany ("Designated Foreign Sovereign Debt") through both direct investment and repurchase agreements.<sup>10</sup> The Petitioners also request an exemption from Regulation 1.25(d)(2) that would permit them to enter into reverse repurchase agreements with certain foreign banks, certain regulated securities dealers, or the European Central Bank and the central banks of Germany and France.<sup>11</sup> Lastly, the ICE DCOs request an exemption from Regulation 1.25(d)(7) that would permit them to hold the securities purchased through reverse repurchase agreements in a safekeeping account with a non-U.S. bank that qualifies as a depository under the requirements of Regulation 1.49.

## III. Section 4(c) Analysis

In connection with the Proposed Order, the Commission preliminarily determined that granting the requested exemption would be consistent with Section 4(c) of the Act.<sup>12</sup> After reviewing the comments received in response to the Proposed Order, all of which supported an exemption, the Commission has determined that the exemption detailed below satisfies the requirements of Section 4(c)(2) of the Act.<sup>13</sup>

Specifically, the Commission has determined that the restriction on investments of customer funds by DCOs should not apply to Designated Foreign Sovereign Debt. As the Commission previously observed, the ICE DCOs demonstrated that the Designated Foreign Sovereign Debt has credit, liquidity, and volatility characteristics that are comparable to U.S. Government Securities, which are permitted investments under the Act and Regulation 1.25. For example, as evidence of the creditworthiness of France and Germany, the ICE DCOs provided data demonstrating that credit default swap spreads of France and Germany have historically been similar to those of the United States. To demonstrate the liquidity of the markets, the ICE DCOs pointed to, for example, the substantial amount of outstanding marketable French and German debt and the daily transaction value of the repo markets for their debt. And with respect to volatility, the ICE DCOs provided data on daily changes to sovereign debt yields demonstrating that the price stability of French and German debt is comparable to that of U.S. Government Securities.

The Commission also observed that the ICE DCOs demonstrated that investing in the Designated Foreign

<sup>12</sup> Section 4(c)(1) of the Act empowers the Commission to promote responsible economic or financial innovation and fair competition by exempting any transaction or class of transactions (including any person or class of persons offering, entering into, rendering advice or rendering other services with respect to, the agreement, contract, or transaction), from any of the provisions of the Act, subject to exceptions not relevant here. 7 U.S.C. 6(c)(1).

<sup>13</sup> Section 4(c)(2) of the Act provides that the Commission may grant exemptions under Section 4(c)(1) only when it determines that the requirements for which an exemption is being provided should not be applied to the agreements, contracts, or transactions at issue; that the exemption is consistent with the public interest and the purposes of the Act; that the agreements, contracts, or transactions will be entered into solely between appropriate persons; and that the exemption will not have a material adverse effect on the ability of the Commission or any contract market or derivatives transaction execution facility to discharge its regulatory or self-regulatory responsibilities under the Act.

Sovereign Debt poses less risk to customer funds than the current alternative of holding the funds at a commercial bank, on the basis that exposure to high-quality sovereign debt is preferable to facing the credit risk of commercial banks through unsecured bank demand deposit accounts. While investments through reverse repurchase agreements (as opposed to direct investments) still involve exposure to a commercial counterparty, a DCO would receive the additional benefit of receiving securities as collateral against that counterparty's credit risk. The ICE DCOs also represented that in the event a securities custodian enters insolvency proceedings, they would have a claim to specific securities rather than a general claim against the assets of the custodian.

Further, the Commission has determined that the exemption is consistent with the public interest and the purposes of the Act, which include ensuring the financial integrity of transactions and avoiding systemic risk.<sup>14</sup> As noted above, investing customer funds in Designated Foreign Sovereign Debt is often a prudent alternative to holding cash at a commercial bank from a risk management perspective, and granting the exemption thus serves to protect market participants and the public. For the same reasons, granting the exemption may enhance the financial integrity of the DCO and thereby help to avoid systemic risk.

Finally, the Commission has determined that granting an exemption allowing investment of customer funds in instruments with risk characteristics comparable to currently permitted investments does not have a material adverse effect on the ability of the Commission or any contract market to discharge its regulatory or self-regulatory duties under the Act.<sup>15</sup>

Based on the foregoing, the Commission has determined that granting the exemption provided in the order below satisfies the requirements of section 4(c) of the Act.

## IV. Proposed Order

The Commission proposed an exemption to permit the ICE DCOs, subject to certain conditions, to invest customer funds in Designated Foreign Sovereign Debt. The first condition required that the ICE DCOs only use customer euro cash to invest in the Designated Foreign Sovereign Debt. This restriction was previously included in

<sup>14</sup> See 7 U.S.C. 5(b).

<sup>15</sup> The section 4(c)(2) factor of whether an agreement, contract or transaction is entered into solely between appropriate persons does not apply here.

<sup>9</sup> *Id.*

<sup>10</sup> A copy of the petition is available on the Commission's website at <http://www.cftc.gov/idc/groups/public/requestsandactions/documents/ijdocs/icedcos4capp16-22-17.pdf>.

<sup>11</sup> The ICE DCOs have indicated they may not currently be able to enter into repurchase agreements with these central banks.

Regulation 1.25<sup>16</sup> when the rule permitted the investment of customer funds in foreign sovereign debt, and the Commission believes it is still an appropriate restriction on the amount that may be invested in these instruments.

Second, the Commission proposed to permit the ICE DCOs to invest in Designated Foreign Sovereign Debt only so long as the two-year credit default spread of the issuing sovereign is 45 basis points ("BPS") or less. The Commission explained that because the proposed order was not intended to expand the universe of permitted investments beyond instruments with a risk profile similar to those that are currently permitted, U.S. Government Securities provide an appropriate benchmark to confine permitted investments in foreign sovereign debt. The Commission proposed the cap of 45 BPS based on a historical analysis of the two-year credit default spread of the United States ("U.S. Spread"). Forty-five BPS is approximately two standard deviations above the mean U.S. Spread over the past eight years and represents a risk level that the U.S. Spread has exceeded approximately 5% of the time over that period.<sup>17</sup> The Proposed Order provided that if the spread exceeds 45 BPS, the ICE DCOs would not be permitted to make new investments in the relevant debt. They also would not need to immediately divest all current investments, however, due to risks associated with selling assets in a potentially volatile market. The Commission explained that prohibiting new investments, together with the length to maturity condition discussed immediately below, sufficiently protects customer funds in the event that a country's Designated Foreign Sovereign Debt were to exceed the 45 BPS spread limit.

Third, the Commission proposed to limit the length to maturity of direct investments in Designated Foreign

Sovereign Debt, to limit permitted investments to those with a lower risk profile. Specifically, the Proposed Order contained a requirement that each of the ICE DCOs ensure that the dollar-weighted average of the time-to-maturity of their portfolio of direct investments in each type of Designated Foreign Sovereign Debt does not exceed 60 days. This restriction was modeled on Securities and Exchange Commission requirements for money market mutual funds,<sup>18</sup> which have liquidity timing needs appropriately analogous to those of a DCO in this instance, and was designed to ensure that the investments will mature relatively quickly, providing the ICE DCOs with access to euro cash.

To provide the ICE DCOs with the ability to invest customer funds in the Designated Foreign Sovereign Debt, the Commission proposed to exempt the ICE DCOs from the counterparty and depository requirements of Regulation 1.25(d)(2) and (7), subject to conditions. As a practical matter, complying with these requirements would severely restrict the ICE DCOs' ability to enter into repurchase agreements for Designated Foreign Sovereign Debt.

Specifically the Commission proposed to exempt the ICE DCOs from the counterparty restrictions of Regulation 1.25(d)(2), subject to the condition that counterparties be limited to certain categories that are intended to limit the risk associated with reverse repurchase transactions. The ICE DCOs represented that the principal participants in the European sovereign debt repurchase markets are non-U.S. banks, non-U.S. securities dealers, and foreign branches of U.S. banks. As a result, the counterparty requirements under Regulation 1.25(d)(2) would significantly constrain the use of euro-denominated sovereign debt repurchase agreements. Additionally, the ICE DCOs represented that it would be impractical and inefficient to hold such securities at a U.S. custodian, and the Commission proposed to exempt the ICE DCOs from the depository requirement of Regulation 1.25(d)(7), so long as the depository qualifies as a permitted depository under Regulation 1.49. The Commission explained that the proposed restrictions on permitted counterparties and depositories are designed to ensure that the counterparties and depositories used by the ICE DCOs will be regulated entities comparable to those currently permitted under Regulation 1.25(d)(2) and (7).

## V. Comments on the Proposed Order

The Commission published a request for comments regarding the Proposed Order in the **Federal Register** on December 15, 2017.<sup>19</sup>

The Commission received three comment letters.<sup>20</sup> Each of the commenters supported an exemption and suggested several changes to the Proposed Order. Both Eurex and FIA stated that the proposed exemption is consistent with the Regulation 1.25 objectives of preserving principle and maintaining liquidity.

All three commenters recommended that the Commission expand the scope of the order to grant relief to additional registrants. Eurex, a registered DCO, requested that it be included within the scope of the exemption. CME encouraged the Commission to include all DCOs in the scope of the exemption, and FIA recommended including all DCOs and their FCM clearing members.

CME and Eurex argued that expanding the scope of the order is consistent with the promotion of fair competition, which is one of the stated purposes of section 4(c) exemptions.<sup>21</sup> They also highlighted the benefits of investing customer funds in Designated Foreign Sovereign Debt as justification for expanding the scope of the order. Eurex stated that investing in Designated Foreign Sovereign Debt is safer than holding euro cash at a commercial bank. Additionally, CME noted that investing in Designated Foreign Sovereign Debt promotes effective management of liquidity risk by aligning collateral types with potential liquidity obligations and by diversifying risk in the investment portfolio. CME further stated that investments in Designated Foreign Sovereign Debt allow DCOs to better mitigate collateral concentration risk and argued that these benefits are not unique to any particular DCO.

The Commission agrees that the benefits of the Proposed Order are not unique to the ICE DCOs and is accordingly expanding the scope of the Proposed Order to permit all DCOs to invest customer funds in Designated Foreign Sovereign Debt, subject to the conditions of the order. The Commission notes, however, that some DCOs have access to a central bank account for euro deposits and believes that such access can, in certain

<sup>16</sup> See 17 CFR 1.25(b)(4)(D) (2005) (providing that sovereign debt is subject to the following limits: A futures commission merchant may invest in the sovereign debt of a country to the extent it has balances in segregated accounts owed to its customers denominated in that country's currency; a DCO may invest in the sovereign debt of a country to the extent it has balances in segregated accounts owed to its clearing member futures commission merchants denominated in that country's currency).

<sup>17</sup> The Commission reviewed the daily U.S. Spread from July 3, 2009 to July 3, 2017. Over this time period, the U.S. Spread had a mean of approximately 26.5 BPS and a standard deviation of approximately 9.72 BPS. Over this same period, the two-year German spread exceeded 45 BPS approximately 6% of the time, and the two-year French spread exceeded 45 BPS approximately 25% of the time. Neither the German nor the French two-year spread has exceeded 45 BPS since September 2012.

<sup>18</sup> See 17 CFR 270.2a-7.

<sup>19</sup> 82 FR 59586 (Dec. 15, 2017).

<sup>20</sup> Letters were submitted by CME Group, Inc. ("CME"), Eurex Clearing AG ("Eurex"), and the Futures Industry Association ("FIA"). All comment letters are available through the Commission's website at: <https://comments.cftc.gov/PublicComments/CommentList.aspx?id=2850>.

<sup>21</sup> See 7 U.S.C. 6(c)(1).

circumstances, reduce or eliminate the need for investing customer funds in Designated Foreign Sovereign Debt. The Commission therefore encourages DCOs to deposit customer euro with a central bank when it is practical to do so.<sup>22</sup> The comments received did not provide support for an expansion of the exemption to FCMs,<sup>23</sup> a separate class of registrants subject to differing regulatory obligations that the Commission would need to carefully consider on their own terms. As a result, the Commission declines to expand the order to permit FCMs to invest customer funds in Designated Foreign Sovereign Debt at this time.

Both Eurex and FIA encouraged the Commission to expand the weighted average time-to-maturity limit beyond the proposed 60 days. Eurex recommended limiting portfolios, including repurchase agreements, to a two-year time-to-maturity requirement, consistent with the current limit in Regulation 1.25 for the overall portfolio of investments purchased with customer funds. It argued that because the Commission found the risk characteristics of German and French debt to be similar to those of U.S. Government Securities, the same time-to-maturity limit should apply. FIA recommended using a six month time-to-maturity limit.<sup>24</sup> Based on discussions with trading desks at several member firms, FIA suggested that the 60-day limit would be too restrictive. It explained that the new issuance supply of French and German sovereign debt that could be used to satisfy this restriction is limited and thinly traded and quoted, which could force participants to invest in less-liquid secondary market securities. Further, FIA noted that although the discussion of the proposed 60-day time-to-maturity limit noted the SEC's requirement for mutual funds as a point of reference, the SEC rule includes overnight repos in the calculation, which significantly reduces the average time-to-maturity of the portfolio as a whole.

The 60-day average time-to-maturity limitation as proposed to apply only to

direct investments may unduly limit investments in Designated Foreign Sovereign Debt, and the Commission is therefore amending the calculation of the limitation. Under the final order, the dollar-weighted average time-to-maturity of all investments in Designated Foreign Sovereign Debt, including repurchase agreements, may not exceed 60 days. The Commission is also, however, limiting individual direct investments in Designated Foreign Sovereign Debt to securities that have a remaining maturity of 180 days or less. While the risk characteristics of Designated Foreign Sovereign Debt are broadly comparable to those of U.S. Government Securities, Designated Foreign Sovereign Debt is somewhat less liquid than U.S. Government Securities and the cap on the time-to-maturity of individual investments is intended to address that reduced liquidity.

FIA recommended using the five-year credit default swap ("CDS") spread as the measure of credit quality for Designated Foreign Sovereign Debt, arguing that the two-year CDS is thinly traded and quoted compared to the five-year instrument. FIA recommended permitting investments in French and German debt when the five-year CDS spread is at 60 basis points or less.

The Commission understands that the five-year CDS is more commonly traded than the two-year, but believes that the two-year spread is more suitable for this purpose because it more closely tracks the duration of the investments that DCOs will make in Designated Foreign Sovereign debt. While liquidity of the two-year product may not match that of the five-year, the Commission believes that data and quotes on the two-year spread are adequately available for their intended use as a measure of creditworthiness.

FIA noted that under the proposed exemption from Regulation 1.25(d)(2) and (7), the ICE DCOs would be required to comply with the remaining provisions of Regulation 1.25(d). FIA stated that these requirements provide important protections for customer funds employed in repurchase agreements and should not be waived. The Commission agrees and confirms that DCOs must continue to comply with all requirements in Regulation 1.25 not exempted by the order.

Eurex requested the Commission clarify that like U.S. Government Securities, Foreign Sovereign Debt is not subject to an asset-based concentration limit. The Commission confirms that the order does not subject Designated Foreign Sovereign Debt to an asset-based concentration limit. Because

investments of customer funds in Designated Foreign Sovereign Debt will be limited to the amount of euro cash held by DCOs, the Commission does not believe that an asset-based concentration limit is necessary.

In addition, the Commission is amending the Proposed Order to permit DCOs a reasonable amount of time after the two-year CDS spread of France or Germany exceeds 45 basis points to determine an appropriate alternative investment or depository for funds that had been invested in a repurchase agreement for the relevant Designated Foreign Sovereign Debt. The Commission does not believe it is prudent to immediately require DCOs to locate depositories for potentially large amounts of cash without notice. The order as revised will require DCOs to stop entering into repurchase agreements as soon as practicable under the circumstances while the French or German two-year CDS spread exceeds 45 basis points. The Commission is not amending the restriction that no new direct investments in the relevant debt may be made if the two-year spread is greater than 45 basis points.

The Commission is also making a change to the Proposed Order to clarify that the exemption to Regulation 1.25(d)(2) and (7) only applies to investments in Designated Foreign Sovereign Debt and not all securities purchased with customer funds.

The Commission does not intend this order to relieve a DCO of any obligation relating to investments in Designated Foreign Sovereign Debt that would apply if Designated Foreign Sovereign Debt were a permitted investment under Commission Regulation 1.25. The Commission is adding a new paragraph to the order to clarify that certain Commission regulations apply to investments made pursuant to this order.

## VI. Order

After considering the above factors and the comment letters received in response to its request for comments, the Commission has determined to issue the following:

(1) The Commission, pursuant to its authority under section 4(c) of the Commodity Exchange Act ("Act") and subject to the conditions below, hereby grants registered derivatives clearing organizations ("DCOs") a limited exemption to section 4d of the Act and to Commission Regulation 1.25(a) to permit all registered DCOs to invest euro-denominated futures and cleared swap customer funds in euro-denominated sovereign debt issued by the French Republic and the Federal

<sup>22</sup> See Comm. on Payment and Settlement Sys. and Technical Comm. of the Int'l Org. of Sec. Comm'ns [CPSS-IOSCO, now CPMI-IOSCO] *Principles for Financial Market Infrastructures*, Princ. 7 Key Consideration 8 (2012) ("An FMI with access to central bank accounts, payment services, or security services should use these services, where practical, to enhance its management of liquidity risk.")

<sup>23</sup> See FIA comment letter at 3 (providing only that "[w]e see no reason why the proposed relief should not be" available to FCMs holding euro-denominated segregated balances).

<sup>24</sup> FIA did not specify whether repurchase agreements would be included in the calculation of the time-to-maturity limit it proposed.

Republic of Germany ("Designated Foreign Sovereign Debt").

(2) The Commission, subject to the conditions below, additionally grants:

(a) A limited exemption to Commission Regulation 1.25(d)(2) to permit registered DCOs to use customer funds to enter into repurchase agreements for Designated Foreign Sovereign Debt with foreign banks and foreign securities brokers or dealers; and

(b) A limited exemption to Commission Regulation 1.25(d)(7) to permit registered DCOs to hold Designated Foreign Sovereign Debt purchased under a repurchase agreement in a safekeeping account at a foreign bank.

(3) This order is subject to the following conditions:

(a) Investments of customer funds in Designated Foreign Sovereign Debt by a DCO must be limited to investments made with euro customer cash.

(b) If the two-year credit default spread of an issuing sovereign of Designated Foreign Sovereign Debt is greater than 45 basis points:

(i) A DCO must discontinue investing customer funds in the relevant debt through repurchase transactions as soon as practicable under the circumstances;

(ii) A DCO may not make any new direct investments in the relevant debt using customer funds. Direct investment refers to purchases of Designated Foreign Sovereign Debt unaccompanied by a contemporaneous agreement to resell the securities.

(c) The dollar-weighted average of the time-to-maturity of a DCO's portfolio of investments in each sovereign's Designated Foreign Sovereign Debt may not exceed 60 days.

(d) A DCO may not make a direct investment in any Designated Foreign Sovereign Debt that has a remaining maturity of greater than 180 calendar days.

(e) A DCO may use customer funds to enter into repurchase agreements for Designated Foreign Sovereign Debt with a counterparty that does not meet the requirements of Commission Regulation 1.25(d)(2) only if the counterparty is:

(i) A foreign bank that qualifies as a permitted depository under Commission Regulation 1.49(d)(3) and that is located in a money center country (as defined in Commission Regulation 1.49(a)(1)) or in another jurisdiction that has adopted the euro as its currency;

(ii) A securities dealer located in a money center country as defined in Commission Regulation 1.49(a)(1) that is regulated by a national financial regulator such as the UK Prudential Regulation Authority or Financial Conduct Authority, the German

Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), the French Autorité Des Marchés Financiers (AMF) or Autorité de Contrôle Prudentiel et de Résolution (ACPR), or the Italian Commissione Nazionale per le Società e la Borsa (CONSOB); or

(iii) The European Central Bank, the Deutsche Bundesbank, or the Banque de France.

(f) A DCO may hold customer Designated Foreign Sovereign Debt purchased under a repurchase agreement with a depository that does not meet the requirements of Commission Regulation 1.25(d)(7) only if the depository meets the location and qualification requirements contained in Commission Regulation 1.49(c) and (d) and if the account complies with the requirements of Commission Regulation 1.26.

(4) A DCO must continue to comply with all other requirements in Commission Regulation 1.25, including but not limited to the counterparty concentration limits in Commission Regulation 1.25(b)(3)(v), and other applicable Commission regulations.

(5) Investments made pursuant to this order will be considered "instruments described in § 1.25" for the purposes of Commission Regulation 1.29 and will be considered to be made "in accordance with § 1.25" for the purposes of Commission Regulation 22.3.

#### IV. Related Matters

##### A. Paperwork Reduction Act

The Paperwork Reduction Act ("PRA") imposes certain requirements on federal agencies (including the Commission) in connection with their conducting or sponsoring any collection of information as defined by the PRA. This exemptive order does not involve a collection of information. Accordingly, the PRA does not apply.

##### B. Cost-Benefit Analysis

Section 15(a) of the CEA requires the Commission to consider the costs and benefits of its action before issuing an order under the CEA. By its terms, section 15(a) does not require the Commission to quantify the costs and benefits of an order or to determine whether the benefits of the order outweigh its costs. Rather, section 15(a) simply requires the Commission to "consider the costs and benefits" of its action. The Commission did not receive any comments on its proposed costs and benefits.

##### 1. Baseline

The Commission's baseline for consideration of the costs and benefits

of the exemptive order are the costs and benefits that DCOs and the public would face if the Commission does not grant the order, or in other words, the status quo. In that scenario, DCOs would be limited to investing customer funds in the instruments listed in Regulation 1.25.

##### 2. Costs and Benefits

The costs and benefits of the order are not presently susceptible to meaningful quantification. Therefore, the Commission discusses costs and benefits in qualitative terms.

The Commission does not believe granting the exemption will impose additional costs on DCOs. The order permits but does not require DCOs to invest customer funds in Designated Foreign Sovereign Debt. Each DCO may therefore decide whether to accept any costs and benefits of an investment. The Commission also does not expect the order to impose additional costs on other market participants or the public, which do not face any direct costs from the order. While other market participants or the public could potentially face costs from riskier investment activity leading to financial instability at a DCO, the Commission believes that this is unlikely, because the order prescribes limits on investments of customer funds in Designated Foreign Sovereign Debt designed to preserve principal and maintain liquidity. In addition, the flexibility to hold customer funds in Designated Foreign Sovereign Debt rather than in euro cash at a commercial bank provides risk management benefits as described above.

The Commission believes that DCOs will benefit from the order. The exemption provides DCOs additional flexibility in how they manage and hold customer funds and allows them to improve the risk management of their customer accounts. Further, if DCOs invest customer funds in Designated Foreign Sovereign Debt, other participants in the relevant market may benefit from the additional liquidity. Moreover, as described above, it is safer from a risk management perspective to hold Foreign Sovereign Debt in a safekeeping account than to hold euro cash at a commercial bank. Therefore, market participants and the public may also benefit from the exemption.

##### 3. Section 15(a) Factors

Section 15(a) of the CEA further specifies that costs and benefits shall be evaluated in light of five broad areas of market and public concern: protection of market participants and the public; efficiency, competitiveness, and

financial integrity of futures markets; price discovery; sound risk management practices; and other public interest considerations. The Commission could in its discretion give greater weight to any one of the five enumerated areas and could in its discretion determine that, notwithstanding its costs, a particular order was necessary or appropriate to protect the public interest or to effectuate any of the provisions or to accomplish any of the purposes of the CEA. The Commission is considering the costs and benefits of this exemptive order in light of the specific provisions of section 15(a) of the CEA, as follows:

1. *Protection of market participants and the public.* As described above, investing in the Designated Foreign Sovereign Debt as requested by the Petitioners can provide risk management benefits relative to the current alternative of holding euro collateral in a commercial bank. Granting the exemption thus serves to protect market participants and the public.

2. *Efficiency, competition, and financial integrity.* Granting the exemption may increase efficiency by providing DCOs additional flexibility in how they manage customer funds. Making the investments permitted by the order is elective, within the discretion of each DCO, and thus does not impose additional costs. Further, as discussed in the above, DCOs can exercise prudent risk management by investing in the Designated Foreign Sovereign Debt, which may enhance the financial integrity of the DCO.

3. *Price discovery.* The exemption is unlikely to impact price discovery in the derivatives markets.

4. *Sound risk management practices.* As described above, investing customer funds in the Designated Foreign Sovereign Debt is intended to advance sound risk management practices, including by limiting custodian and collateral concentration risks.

5. *Other public interest considerations.* The Commission believes that the relevant cost-benefit considerations are captured in the four factors above.

Issued in Washington, DC, on July 19, 2018, by the Commission.

**Robert Sidman,**

*Deputy Secretary of the Commission.*

**Appendix To Order Granting Exemption From Certain Provisions of the Commodity Exchange Act Regarding Investment of Customer Funds and From Certain Related Commission Regulations—Commission Voting Summary**

On this matter, Chairman Giancarlo and Commissioners Quintenz and Behnam voted in the affirmative. No Commissioner voted in the negative.

[FR Doc. 2018–15860 Filed 7–24–18; 8:45 am]

**BILLING CODE 6351–01–P**

**DEPARTMENT OF DEFENSE**

**Office of the Department of the Air Force**

**Board of Visitors of the U.S. Air Force Academy; Notice of Federal Advisory Committee Meeting**

**AGENCY:** Board of Visitors of the U.S. Air Force Academy, Department of the Air Force.

**ACTION:** Notice of Federal Advisory Committee meeting.

**SUMMARY:** On Thursday, July 5, 2018, the Department of Defense published a notice to announce a Federal Advisory Committee meeting of the Board of Visitors of the U.S. Air Force Academy to be held on July 27, 2018. Subsequent to the publication of the notice, the meeting timeframe for opening and closing was changed, as well as part of the order of agenda topics. All other information in the July 5, 2018 notice remains the same.

**DATES:** Open to the public Friday July 27, 2018 from 7:30 a.m. to 3:00 p.m. (Mountain Time).

**ADDRESSES:** United States Air Force Academy, Blue and Silver Club, Colorado Springs, CO.

**FOR FURTHER INFORMATION CONTACT:** Jean R. Love, (703) 692–7757 (Voice), 703–693–4244 (Facsimile), [jean.r.love.civ@mail.mil](mailto:jean.r.love.civ@mail.mil) (Email). Mailing address is SAF/MRM, 1660 Air Force Pentagon, Washington, DC 20330–1660. Website: <https://www.usafa.edu/about/bov/>.

Captain Natalie Campos, Officer of the Deputy Assistant Secretary of the Air Force, SAF/MRM, Executive Officer and Force Management Action Officer, 1660 Air Force Pentagon, Washington, DC 20330, (703) 697–7058, [natalie.m.campos.mil@mail.mil](mailto:natalie.m.campos.mil@mail.mil).

**SUPPLEMENTARY INFORMATION:** Due to circumstances beyond the control of the

Department of Defense (DoD) and the Designated Federal Officer, the meeting schedule for the previously announced meeting of the Board of Visitors of the U.S. Air Force Academy on July 27, 2018 was changed and the Designated Federal Officer to the Board of Visitors of the U.S. Air Force Academy was unable to provide sufficient public notification of this change as required by 41 CFR 102–3.150(a). Accordingly, the Advisory Committee Management Officer for the Department of Defense, pursuant to 41 CFR 102–3.150(b), waives the 15-calendar day notification requirement. This meeting is being held under the provisions of the Federal Advisory Committee Act (FACA) of 1972 (5 U.S.C., Appendix, as amended), the Government in the Sunshine Act of 1976 (5 U.S.C. 552b, as amended), and 41 CFR 102–3.140 and 102–3.150.

*Purpose of the Meeting:* No change.

*Agenda:*

0730–0735 Introductions & opening remarks by Designated Federal Officer (Ms. Love)  
0735–0740 Call to Order and Agenda Overview, BoV Chairman: Gen (Ret) Rice  
0740–0745 Chairman's Opening Comments  
0745–0845 Superintendent's Update  
0845–0900 Comfort Break  
0900–0945 Commandant's Update  
0945–1030 Dean's Update  
1030–1100 SAPR Update  
1100–1130 CCLD's Update  
1130–1215 **BREAK: Group Photo,**  
*Lunch served*  
1215–1315 Admissions Update  
1315–1330 Comfort Break  
1330–1400 Athletic Director's Update  
1400–1430 Superintendent's Summary Remarks  
1430–1500 Chairman's Concluding Remarks  
1500 Public Comment/Adjourn (DFO)

*Meeting Accessibility:* Open to the public subject to the availability of space. Registration of members of the public who wish to attend the meeting will begin upon publication of this meeting notice and end three business days (24 July) prior to the start of the meeting. All members of the public must contact Capt Campos at the phone number or email listed in the **FOR FURTHER INFORMATION CONTACT.** Seating is limited and is on a first-to-arrive basis. Attendees will be asked to provide their name, title, affiliation, and contact information to include email address and daytime telephone number to the POC listed in the **FOR FURTHER INFORMATION CONTACT** section. Any interested person may attend the meeting, file written comments or