



INTL FCStone Markets, LLC

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September 27, 2018

Mr. Chris Kirkpatrick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, D.C. 20581

Re: Segregation of Assets Held as Collateral in Uncleared Swap Transactions, 83 Fed. Reg. 36484 (July 30, 2018); RIN 3038-AE78

Dear Mr. Kirkpatrick:

INTL FCStone Markets, LLC (“**IFM**” or the “**Firm**”) is pleased to submit this letter in response to the Commodity Futures Trading Commission’s (the “**Commission’s**” or “**CFTC’s**”) request for comments on its proposed rule regarding Segregation of Assets Held as Collateral in Uncleared Swap Transactions (the “**Proposed Rule**”).¹ Section 4s(l) of the Commodity Exchange Act (“**CEA**”), as amended by section 731 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“**Dodd-Frank Act**”), requires that a Swap Dealer or Major Swap Participant notify a counterparty that the counterparty has the right to require that any funds or property the counterparty provides as initial margin be segregated in a separate account from the swap dealer’s or major swap participant’s assets and that the separate account must be held by an independent third-party custodian and designated as a segregated account for the counterparty.² CFTC Regulations 23.700 through 23.704 (“**Segregation Rules**” or “**current regulations**”) implement the requirements for segregation of initial margin for uncleared swap transactions set forth in section 4s(l) of the CEA. The Segregation Rules became effective upon swap dealers and major swap participants on January 6, 2014.

IFM, a wholly-owned subsidiary of INTL FCStone Inc., is provisionally registered as a Swap Dealer with both the CFTC and the National Futures Association (“**NFA**”). INTL FCStone Inc. is a diversified global financial services organization that provides execution, risk management, advisory, and clearing services across asset classes and markets. Using a global infrastructure of regulated operating subsidiaries and advanced technology platforms, INTL FCStone Inc.’s team of over 1,400 employees serve more than 20,000 customers located in more than 130 countries.

¹ *Segregation of Assets Held as Collateral in Uncleared Swap Transactions*, 83 Fed. Reg. 36484 (July 30, 2018).

² 7 U.S.C. 6s(l) (2012 & Supp. 2015).



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IFM's core business is helping mid-sized commodity producers, processors, merchants, and end users understand and mitigate their commodity price risks by accessing derivative markets. The Firm's products are offered primarily to customers who seek to hedge their price risk exposure to grains, energy, softs, interest rates, metals, and other physical commodities. On the date of this letter, IFM had trading relationships and accounts with over 1,600 customers.

IFM's customer base consists primarily of counterparties that are farmers, elevators, processors, merchants, and other commercial end users of agricultural commodities. Mitigation of commodity price risk is critical to the success of these market participants. Because of the size of their operations and their hedging transaction needs, these mid-market commercial clients typically do not have access to the risk management services of Swap Dealers that are affiliated with bank holding companies. In aggregate, however, these customers produce, process, and/or use a significant portion of the U.S. domestic agricultural production.

IFM supports the Commission's efforts to revisit the current regulations surrounding segregation of initial margin and generally supports the Proposed Rule. In the nearly five years since the Segregation Rules became effective upon swap dealers, no counterparty of IFM has elected to segregate initial margin. Further, as detailed below, the Firm believes many of the requirements under the current regulations create unnecessary operational and administrative burdens on swap dealers that outweigh the intended protections afforded to swap counterparties.

Proposed Amendments to Regulation 23.701 – Notification of the Right to Require Segregation

IFM supports the proposed amendments to Regulation 23.701. The current notification requirements often cause confusion to IFM's customers – requiring the Firm to respond with lengthy explanations – rather than providing any meaningful benefit. Specifically, customers have indicated that they find little use for receiving a Segregation Notice on an annual basis. Given the administrative burdens associated with providing the notice on an annual basis coupled with its lack of utility, IFM supports elimination of the annual notification requirement under the Proposed Rule.

IFM also supports the Proposed Rule's elimination of certain specifications the Segregation Notice is required to contain under the current Segregation Rules. Specifically, IFM supports elimination of the requirements to provide pricing information in the notice. Costs associated with segregation are largely controlled by the third-party custodian and may vary for each segregation agreement, which, together, make it difficult to provide meaningful pricing information in the notice. The firm also supports the elimination of the requirement to provide the notice to a specific individual. Swap dealers and swap counterparties are sophisticated market participants capable of determining to whom the notice should be provided and are in a better situation than the Commission to make that determination.

Proposed Amendments to Regulation 23.702 – Requirements for Segregated Margin & Regulation 23.703 – Investment of Segregated Margin

IFM supports the proposed amendments to Regulation 23.702. IFM supports the Proposed Rule's allowance for more flexibility in the requirements for segregated margin and investment of segregated margin. The Firm believes the current regulations are overly prescriptive and welcomes the opportunity for bilateral negotiations between sophisticated market participants who are, by definition, deemed to be able to protect their own interests.

Proposed Amendments to Regulation 23.704 – Requirements for Non-Segregated Margin

Though IFM generally supports the amendments proposed under the Proposed Rule, the Firm encourages the Commission to further evaluate Regulation 23.704. Specifically, IFM urges the Commission to provide relief from application of the quarterly reporting requirement. As noted in the adopting release for Regulation 23.704, quarterly reporting imposes various administrative burdens on swap dealers.³ IFM believes those burdens outweigh any customer protection benefits achieved by imposition of the quarterly reporting requirement.

IFM agrees with the Commission in that it is unnecessary to specify that the CCO be the individual that makes the quarterly reports.⁴ Unfortunately, however, removing specification that the CCO be the individual that makes the quarterly report does not lessen the burden imposed on swap dealers. The requirement to provide a quarterly report creates an administrative burden on swap dealers regardless of who makes the report. Eliminating the requirement that the CCO be the individual that makes such report does not remove, or even lessen, the administrative burden placed on swap dealers; rather, it merely allows for the swap dealer to shift the burden from one department to another.

Finally, IFM believes the quarterly reporting requirement does not provide the customer protection benefits the Commission intended to achieve. IFM has not experienced, nor reported to customers, any instances in which counterparties' margin was not held in compliance with the counterparty agreement. Given the multitude of other notifications IFM is required to provide to customers combined with the lack of non-compliance issues to report, many of our customers find the report to be confusing more so than informative. As such, the Firm believes that customers would find such a report more informative if swap dealers were required to provide a report only when issues of non-compliance are present. Thus, in lieu of requiring swap dealers to

³ See Protection of Collateral of Counterparties to Uncleared Swaps; Treatment of Securities in a Portfolio Margining Account in a Commodity Broker Bankruptcy, 78 Fed. Reg. 66621 (Nov. 6, 2013), available at <https://www.gpo.gov/fdsys/pkg/FR-2013-11-06/pdf/2013-26479.pdf> ("Uncleared Swap Customer Collateral Protection Rules"); 17 C.F.R. §§ 23.700-23.704.

⁴ Segregation of Assets Held as Collateral in Uncleared Swap Transactions, 83 Fed. Reg. 36484 (July 30, 2018) at 36489.

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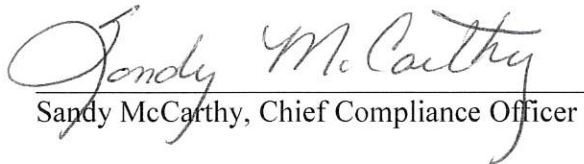
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report to all counterparties on a quarterly basis, the Firm urges the Commission to amend the requirement such that swap dealers need only provide notice to counterparties whose margin was not held in compliance with the agreement of the parties.

IFM greatly appreciates the Commission's consideration of our comments, as well as the work that has gone into developing the Proposed Rule. We would be pleased to provide additional information, or make ourselves available to discuss in person, any requests or inquiries that the Commission or CFTC staff may have concerning our expressed comments or the impact of the Proposed Rule on small swap dealers operating in the agricultural commodity markets.

Respectfully submitted,


Sandy McCarthy, Chief Compliance Officer

cc. Matthew Kulkin, Director of the Division of Swap Dealer and Intermediary Oversight