

# Joint Audit Committee

## REGULATORY ALERT

TO: Chief Executive Officers  
Chief Financial Officers  
Chief Compliance Officers

#22-02

CC: Market Participants Division, CFTC

DATE: June 7, 2022

SUBJECT: CFTC Regulation 1.11 – FCM Risk Management Program

CFTC Regulation 1.11 requires an FCM to establish, maintain and enforce a system of risk management policies and procedures designed to monitor and manage the risks associated with the activities of the FCM. The regulation requires FCMs to maintain written policies and procedures that describe its Risk Management Program and specifically address certain risks and risk tolerance levels, provide for periodic risk exposure reporting, and include policies and procedures to monitor and manage segregation, operational and capital risks.

The FCM's Risk Management Program must account for market, credit, liquidity, foreign currency, legal, operational, settlement, segregation, technological, capital, and any other applicable risks of the FCM. Further, the Risk Management Program must take into account risks posed by affiliates, all lines of business of the FCM and all other trading activity engaged in by the FCM.

FCMs are reminded that the requirements of CFTC Regulation 1.11 must be contained in the FCM's Risk Management Program. That is, all required elements including specific risks, risk tolerance levels, policies, procedures, processes, etc., must be identified and included in the FCM's Risk Management Program. If a required element is addressed in a supplemental program or document, that program or document must be identified in the FCM's Risk Management Program and a clear linkage or reference from the FCM's Risk Management Program to that supplemental program or document must exist.

Policies and procedures to monitor and manage segregation, operational and capital risks should adequately describe the internal processes and/or controls which address these risks and may include, for example, specific reports or criteria to be reviewed or considered by FCM personnel when monitoring or managing these risks; specific actions, evaluations or reviews conducted; FCM personnel executing the processes or controls; documents reviewed or prepared; internal approvals required; and/or the regulatory notification protocols.

In addition, as set forth in CFTC Regulation 1.11, the Risk Management Program should be reviewed and tested on at least an annual basis or upon any material change in the business that is reasonably likely to alter the risk profile of the FCM. CFTC Regulation 1.11 also requires an FCM to provide annual training of all finance, treasury, operations, regulatory, compliance, settlement and other relevant

officers and employees regarding segregation requirements, notice requirements under CFTC Regulation 1.12, procedures for reporting suspected breaches of policies and procedures to the Chief Compliance Officer, and consequences of failing to comply with segregation requirement regulations.

CFTC Regulation 1.11 should be reviewed completely for all requirements. Furthermore, the CFTC has also issued [Staff Advisory No. 16-24](#) as additional guidance pertaining to the regulatory requirements of an FCM's Risk Management Program.

If you have any questions, please contact your DSRO.