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CFTC Issues New Governance Guidelines for Futures Exchanges

Focus on the Dual Roles of Exchanges as For-Profit Businesses and Industry Watchdogs

Washington, D.C. — The Commodity Futures Trading Commission (CFTC) moved today to strengthen futures exchange governance by calling for increased public representation at key levels of decision making, including boards of directors. The initiative will enable exchanges to better manage and minimize conflicts arising from changing ownership structures, increased sources of competition, and the inherent tension between their regulatory and commercial functions.

“Today’s initiative raises the bar for exchange governance,” CFTC Chairman Reuben Jeffery said in announcing the guidance. “The measures adopted today by the Commission will further public confidence in the futures markets, which play an essential role in both the U.S. and global economy. A robust governance structure, with an increased presence of independent directors in the boardroom, empowers exchanges to promote market integrity and customer protection. We appreciate the important insights provided by various participants during the development of these guidelines.”

The board composition standards are part of a set of “[acceptable practices](#)”—guidance issued by the Commission as a voluntary safe harbor for compliance with “Core Principle 15.” Core Principle 15 is a provision of the *Commodity Exchange Act* that requires exchanges to minimize conflicts of interest in their decision-making processes. Exchanges that do not comply with the safe harbor afforded by the Commission’s guidance must demonstrate to the Commission how they otherwise comply with the requirement to minimize conflicts.

The four-part acceptable practices call for exchange boards to consist of at least 35% public directors. The acceptable practices also call upon each exchange to establish a board-level Regulatory Oversight Committee (ROC), composed entirely of public directors, to oversee the exchange’s performance of its day-to-day self-regulatory functions. In addition, it calls on each exchange disciplinary panel to have at least one public member. Finally, the guidance contains a definition of “public” that excludes exchange members, officers and employees, among other restrictions.

The acceptable practices will be effective 30 days after publication in the Federal Register. The Commission is granting existing exchanges a phase-in period of two years or two board election cycles, whichever comes first, to implement the acceptable practices or otherwise demonstrate full compliance with Core Principle 15.

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