

MANAGED FUNDS ASSOCIATION
The Voice of the Global Alternative Investment Industry

WASHINGTON, DC | NEW YORK



November 17, 2017

Via Electronic Submission

The Hon. Christopher Giancarlo
Chairman
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: Protection of Confidential Registrant Information

Dear Chairman Giancarlo:

Managed Funds Association¹ (“MFA”) appreciates your recent statement regarding cybersecurity before the House Committee on Agriculture on October 11, 2017,² and your leadership in addressing cyber threats at the Commodity Futures Trading Commission (“CFTC” or “Commission”). As you know, MFA is concerned with data security and the protection of confidential registrant information by regulators. We agree with your statement that “cybersecurity is undoubtedly the most important single issue facing our markets today in terms of market integrity and financial stability.”³ The recent cyber breaches of Equifax and the Securities and Exchange Commission were highly alarming, and demonstrate the real risks and harm that can befall individuals and registrants when bad actors hack companies and regulators. MFA has four suggestions (outlined below) to ensure the efficacy of the CFTC’s regulatory program while reducing the risks of inadvertent disclosures from cyber intrusions.

In recent years, the potential consequences of a cyber intrusion have grown considerably as the Commission has obtained significantly more sensitive information from registrants, including from systemic risk reports, while its information security vulnerabilities remain amongst its most serious

¹ The Managed Funds Association (MFA) represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent, and fair capital markets. MFA, based in Washington, DC, is an advocacy, education, and communications organization established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices and learn from peers, and communicate the industry’s contributions to the global economy. MFA members help pension plans, university endowments, charitable organizations, qualified individuals and other institutional investors to diversify their investments, manage risk, and generate attractive returns. MFA has cultivated a global membership and actively engages with regulators and policy makers in Asia, Europe, North and South America, and many other regions where MFA members are market participants.

² Testimony of J. Christopher Giancarlo, Chairman, U.S. Commodity Futures Trading Commission, before the House Committee on Agriculture, October 11, 2017, available at: <http://www.cftc.gov/PressRoom/SpeechesTestimony/opagiancarlo-29>.

³ *Id.*

management challenges.⁴ MFA has raised strong concerns to regulators, including the Commission, regarding data security and the protection of confidential registrant information.⁵ We are concerned that a data security breach could create significant market volatility, destabilize markets, harm investors, and result in the misappropriation of confidential proprietary information.

With the benefit of more experience, it would be wise for the Commission to reconsider the types of information that it collects and under what circumstances. We urge the Commission to rethink: (1) the data it collects from commodity pool operators (“CPOs”) and commodity trading advisors (“CTAs”); (2) how it collects and protects such data; and (3) the disposal of such data when the Commission is through using it.

I. Reviewing What the CFTC Collects

The Commission requires CPOs and CTAs to provide lengthy, detailed reports of their investments, strategies and business operations through Forms CPO-PQR and CTA-PR.⁶ In the current environment of growing cybersecurity threats, the “more is better” approach to data collection is no longer a pragmatic or prudent approach to regulation. As part of the Commission’s strategy to mitigate systemic risk and harm to investors and registrants from cyber theft, we believe the Commission should use greater restraint in its data reporting requirements and request only data that it needs to achieve its core mission.

Recommendation #1: The Commission should narrow the scope of systemic risk filings to information that could identify such risks to data that is necessary to achieve the Commission’s core mission. To assist the Commission in considering this request, MFA will be developing a revised Form PF/PQR, consistent with our recommendations for the Commission and the Securities and Exchange Commission to rationalize and simplify reporting by adopting a single, simpler form; and for NFA to amend Form PQR to its pre-Dodd-Frank Act version and to make similar amendments to Form PR.⁷

⁴ See, e.g., CFTC Office of Inspector General (“OIG”) Assessment of the Most Serious Management Challenges Facing the CFTC, September 25, 2017, available at: <http://www.cftc.gov/idc/groups/public/@aboutcftc/documents/file/oigmgmtchall2017.pdf>; CFTC OIG Assessment of the Most Serious Management Challenges Facing the CFTC, October 26, 2016, (finding that the most serious management challenges for the CFTC are to minimize information security vulnerabilities in its network, and to execute its strategic plan with limited budgetary resources, among others) available at: <http://www.cftc.gov/About/OfficeoftheInspectorGeneral/ssLINK/oigmgmtchall2015>; CFTC Office of Inspector General (“OIG”) Report to Congress, April 1, 2015-September 30, 2015, (raising concerns with the vast majority of servers and network users) available at: http://www.cftc.gov/idc/groups/public/@aboutcftc/documents/file/oig_reporttocongress093015.pdf.

⁵ See letter from Stuart J. Kaswell, Executive Vice President, Managing Director and General Counsel, MFA, to Chris Giancarlo, Chairman, CFTC, dated June 6, 2017 on Regulatory Priorities, available at: <https://www.managedfunds.org/wp-content/uploads/2017/06/MFA-Letter-to-Acting-Chair-Giancarlo-Appendix.pdf>.

⁶ Forms CPO-PQR and CTA-PR, available at: <https://www.nfa.futures.org/EasyFilePlus/EFPTemplate.aspx?template=PQR>; and <https://www.reginfo.gov/public/do/DownloadDocument?objectID=28356201>.

⁷ See *supra* n. 5.

II. Data Collection & Protection of CPO and CTA Filings

MFA supports the Commission having the information it needs to oversee registrants and to surveil markets. This authority, however, needs to be balanced with the potential risk of irrevocable harm (*e.g.*, unauthorized disclosure or misappropriation of trade secrets) to registrants and their investors. We believe the Commission and its delegate, the National Futures Association (“NFA”) should review how they collect and protect information through routine confidential filings and during regular exams to mitigate the damage from a future cyber breach.

Recommendation #2: The Commission and NFA should incorporate protections within the design of their forms and reporting systems to mitigate cyber breaches. The Commission and NFA should focus on disaggregating the information stored. For example, the Commission and NFA should enable CPOs and CTAs to use alphanumeric identifiers for filings, to be kept separately within their systems, and revise questions containing firm identifying information. These safeguards would mitigate damage from a breach of EasyFile (through which Forms CPO-PQR and CTA-PR and other filings are made). It would be the equivalent of using a unique numerical identifier on a credit file, rather than the person’s name and social security number.

Recommendation #3: The Commission and NFA should have information security policies in which the protections and security requirements are heightened or tiered depending upon the level of sensitivity of the data collected. CFTC or NFA staff should have access to this sensitive information on a “need to know” basis and in accordance with pre-determined protocols.

III. Disposal or Return of Confidential Data

To further mitigate the risks from a future cyber breach, when the Commission or NFA is through using registrant data—whether it be old Forms CPO-PQR or CTA-PR data or documents received as part of an exam request—we believe it is important for the Commission and NFA to affirmatively return or destroy such data, rather than maintain it in its network and prolong the risk of the data disclosure or misappropriation. Certain types of registrant information, such as trade secrets, may never lose their status as confidential proprietary information. Keeping years of old data or confidential information provides an attractive target for thieves, cyber or otherwise.

Recommendation #4: To further mitigate the risks from a future cyber breach, the Commission and NFA should return or destroy sensitive, confidential registrant data once they are through using it.

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MFA respectfully urges you to incorporate the above policy recommendations as you review the Commission's policies and procedures for enhancing data security at the Commission and how best to protect investors and markets. If you have any questions or comments, or if we can provide further information, please do not hesitate to contact Jennifer Han, Associate General Counsel, or the undersigned at (202) 730-2600.

Respectfully submitted,

/s/ Stuart J. Kaswell

Stuart J. Kaswell
Executive Vice President & Managing Director,
General Counsel
Managed Funds Association

CC: The Hon. Brian D. Quintenz, Commissioner
The Hon. Rostin Behnam, Commissioner
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