

Request for Information
Futures Commission Merchant Services
Responses to Offeror Questions

1. As it relates to Required Contract Term #1, can you please provide us with, and point us to, the specific Maryland law, regulations, rules, interpretations and directives of the Maryland Office of the Attorney General that you believe apply to your trading of exchange traded futures contracts?

Answer:

Under state law procurement principles, contracts between government agencies of the State of Maryland and third-party vendors are typically governed by Maryland law. The Agency recognizes that, for regulatory or other reasons, other sources of law may need to serve as governing law or applicable law for a contract for future commission merchant services. However, in order to meet form and legal sufficiency requirements, any definition of governing law or applicable law in such contract must also include Maryland law.

2. As it relates to Required Contract Term #2, is there a statute or policy that would preclude the State of Maryland from indemnifying a Contractor who is transacting in exchange traded futures contracts on behalf of the Retirement and Pension System, rather than providing commercial services?

Answer:

The Agency may not enter into an indemnification agreement unless a source of funds exists and is allocated to satisfy any payments that may become due and payable under such agreement. See 79 Op. Att’y Gen. 431; 71 Op. Att’y Gen. 274. The Agency does not anticipate that any source of funds will be made available for indemnification under a contract for future commission merchant services.

3. As it relates to Required Contract Term #3, in this relationship we would be acting as an agent not a principal. Are you looking for agents to take on unlimited liability for your trading? Can you please provide more information?

Answer: The Agency typically does not prospectively limit liability by contract.

4. As it relates to Required Contract Term #7, we are required to obtain a lien and first priority security interest with respect to a customer's assets. We believe this is consistent with your position with respect to futures exchanges having rights to initial and variation margin. Can you please describe if otherwise?

Answer:

The Agency's positions regarding liens and margin requirements are as set forth in the RFI.

5. As it relates to Required Contract Term #8, with respect to an exchange traded futures relationship is there a policy or statute that prohibits you from waiving your sovereign immunity?

Answer:

The State of Maryland has waived sovereign immunity only to the limited extent provided in Section 12-201, State Government Article, Annotated Code of Maryland.

6. As it relates to Required Contract Term #9, can you please provide a copy of the remote access terms and provisions of the custodian?

Answer:

The remote access terms and provisions will be required only if the Contractor requires access to confidential account data maintained by the System's custodian. These terms and provisions include customary exculpation and indemnification provisions in favor of the custodian.

7. Can you please provide the number of exchange traded futures contracts traded in 2016?

Answer:

		PURCHASES & SALES/MONTH		
		FUTURES		
2016	COMMODITIES	IR*	EQ**	
AVERAGE	335	45	26	
HIGH	546	68	66	
LOW	234	24	8	

* IR- interest rates related

** EQ- equities related

Please note that the Agency makes no guarantees to any minimum trading volumes.

8. Can you please breakdown the number of exchange traded futures contracts traded in 2016 by those contracts traded internally by the Agency and those contracts traded by external investment advisers?

Answer:

During 2016, exchange traded futures contracts were 100% traded by external investment advisers.

9. What percentage of the Agency's exchange traded futures volumes are electronically self-executed by the Agency as opposed to executed by the Agency's FCM voice execution desk?

Answer:

Currently all futures trades are executed by external investment advisers. Options on futures volume is approximately 5% of total trades. Please note that the Agency makes no guarantees to any minimum trading volumes.

10. Can you please provide your average exchange traded futures initial margin requirement for 2016?

Answer:

Monthly estimates (in millions) are below. These estimates were derived using actual notional amounts on both purchases and sales and 6%, 3% & 6% initial margin requirement for commodities, interest rates related and equities related futures, respectively.

		INITIAL MARGIN/MONTH		
		FUTURES		
2016	COMMODITIES	IR*	EQ**	
AVERAGE	22	59	19	
HIGH	24	74	32	
LOW	19	40	2	

* IR- interest rates related

** EQ- equities related

11. Do you expect your 2017 exchange traded futures activity to be significantly different from your 2016 exchange traded futures activity? If so, can you please explain?

Answer:

The Agency’s RFI contains the following: “The Agency intends to employ the use of liquid, exchange traded futures/derivatives as an overlay program in its portfolio for the purposes of re-balancing to allocation targets, as well as for tactical positioning. The Agency is also in the process of evaluating the prospect of internal management, and expects the need for FCM services in this capacity as well.”

The Agency is already using exchange traded futures as an overlay program and expects this activity to grow in 2017 and beyond both in number of trades and associated notional amounts. Should the Agency begin managing any part of its assets internally, then the volume of trades may grow as well. However, please note that the Agency makes no guarantees to any minimum trading volumes.

12. Are you able to post cash and/or securities (e.g. US treasury bills) to cover exchange traded futures initial margin requirements? If so, can you please explain which you will use?

Answer:

The Agency will post cash to cover exchange traded futures initial margin requirements. If the Agency's internal management materializes, the Agency may be in the position to post other than cash collateral.

13. As it relates to Question 24a, can you please explain your definition of sub accounts?

Answer:

The Agency has developed a system of accounts at its custodian to satisfy Agency's performance measurement and other accounting needs. These accounts' holdings represent overlay trades designed for either structural or tactical portfolio management purposes of each liquid asset class or the System as a whole. The Agency has approximately 20 such accounts.

14. Please provide a list of futures contracts and exchanges in scope.

Answer:

Futures contracts in scope are:

- All clearable interest rates related futures, swaps and options.
- All clearable equities related futures and options.
- All clearable commodities futures and options.
- All clearable liquid currency futures and options on futures.

15. Please provide estimated volume (defined in number of contracts, on a half turn basis) per month or per year. Please provide breakdown for external and internal

Answer:

Please note that the Agency makes no guarantees to any minimum trading volumes. For illustrative purposes data is provided in answer to question 7. As indicated elsewhere, volume of internally executed trades may grow over time.

16. What is the estimated daily Initial Margin Requirement (approximate combined USD amount is fine)

Answer:

The Agency makes no guarantees to any minimum trading volumes.

17. For questions 12 and 13, can we expect this amount will be shared across multiple FCMs? If so, how many?

Answer:

Agency does not expect to contract with more than three FCMs.

18. Please provide a list of external managers currently utilizing futures on behalf of Maryland.

Answer:

A list of the System's external managers is available on page 77 of the System's Comprehensive Annual Financial Report, available online at: http://www.sra.state.md.us/Agency/Downloads/CAFR/CAFR_Investment.pdf. Please note that not all managers in the list are currently trading futures on behalf of the System.

19. Is a sample portfolio available?

Answer:

Information about the System's asset allocation is available online at the Agency's website at: <http://www.sra.state.md.us/Agency/Investment/Downloads/Default.aspx>. Additional information is available in the System's Comprehensive Annual Financial Report, available online at: http://www.sra.state.md.us/Agency/Downloads/CAFR/CAFR_Investment.pdf.