

Joint Audit Committee

Regulatory Update

To: Chief Financial Officer
Chief Compliance Officer

9603

Date: June 5, 1996

Re: CFTC Rule Changes

The Joint Audit Committee and the Commodity Futures Trading Commission (“Commission”) have worked to harmonize varied industry rules and regulations which are similar in nature and intent. Currently, FCMs are subject to comparable Exchange rules and regulations addressing these issues, although, these rules differ slightly at each regulatory agency. Therefore, harmonization of the existing rules will simplify reporting requirements for FCMs and allow regulators to monitor the financial condition of their member firms with like information.

To that end, the Commission has recently adopted rule changes concerning Early Warning Reporting Requirements, Minimum Financial Requirements, Prepayment of Subordinated Debt, Gross Collection of Exchange Set Margin of Omnibus Accounts, and Capital Charges on Receivables from Foreign Brokers. The rule amendments adopted by the Commission have been published in the attached [Federal Register](#) and are effective May 31, 1996. The rule amendments include:

- All FCMs are required to report a reduction in net capital, from that most recently reported, of 20% or more within 2 business days of the event occurring and report any planned reduction in excess net capital of 30% or more at least 2 business days in advance.
- FCMs must report a margin call which exceeds excess adjusted net capital and remains unanswered by the close of business the day following the issuance of the call.
- FCMs are required to provide notification when excess adjusted net capital is less than 6% of the maintenance margin requirement on noncustomer positions, unless the noncustomer is subject to the Commission’s or the SEC’s minimum financial requirements.
- The Commission will increase the minimum required dollar amount of adjusted net capital for FCMs from \$50,000 to \$250,000 and for IBs from \$20,000 to \$30,000. The Commission’s capital requirements also include the capital requirements of the NFA. Attached is a [schedule](#) that describes NFA capital requirements.
- Request for prepayments of subordinated debt should be made only to the DSRO.

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- Pursuant to Commission Rule 1.58, gross collection of exchange-set margin for omnibus accounts is also applicable to omnibus accounts carried by FCMs for foreign brokers.
- The 5% charge on amounts due from foreign brokers will not apply if the receivable represents deposits required to maintain futures and commodity options positions, the foreign broker has been granted comparability relief pursuant to Commission Rule 30.10 and the asset is held by the foreign broker itself, with another foreign broker that has been granted comparability relief, or at a depository in the same jurisdiction as the foreign broker in accordance with Commission Rule 30.7.

Attached is a copy of an April 19, 1996 [schedule](#) which identifies those countries that have been granted comparability relief under CFTC Rule 30.10, along with a [June 4, 1996 CFTC Rule 30.10 Confirmation List](#) which indicates those specific foreign brokers that have been granted comparability relief.

The SROs have agreed to propose any necessary rule changes to simplify reporting requirements. Each SRO will notify its member FCMs when pertinent rule changes are effective.

If you have any questions, please contact your DSRO.