

Joint Audit Committee

Regulatory Update

To: Chief Financial Officers
Chief Compliance Officers

9605

Date: October 17, 1996

Re: Deposits Held With the London Clearing House

Recently, the [London Clearing House \(LCH\) reorganized its ownership structure](#). The six U.K. banks transferred their ownership in LCH to the clearing members and exchanges of LCH. Attached is summary of the ownership reorganization. As a result, LCH clearing members were required to purchase an ownership share for £279,000 and contribute to the Member Default Fund. Contribution to the Member Default Fund is based 75% on margin requirements and 25% on cleared volume with a minimum contribution of £100,000.

The Joint Audit Committee members and CFTC have received several inquiries regarding the net capital treatment for the ownership share and contribution to the Member Default Fund. An LCH clearing member's ownership share is a noncurrent asset as there is no margin value. However, the contribution to the Member Default Fund may be considered a current asset, similar to other types of security deposits held with U.S. clearing organizations. As the contribution to the Member Default Fund is held in British pounds, such deposit is subject to the 6% charge to net capital on the net uncovered foreign currency balance denominated in British pounds. The noncurrent ownership share may be excluded from the foreign currency charge computation.

The net capital treatment described above only applies to firms subject to the regulatory oversight of a Joint Audit Committee member.

If you have any questions, please contact your DSRO.