

Joint Audit Committee

Regulatory Update

To: Chief Financial Officers 9701
Chief Compliance Officers

Date: February 18, 1997

Re: CFTC Rule Changes - Financial Reporting, Debt to Equity Ratio Requirements
and Filing of Guarantee Agreements

The Joint Audit Committee and the Commodity Futures Trading Commission (“Commission”) have been working together to harmonize various industry rules and regulations which are similar in nature and intent. In the past, this combined effort has resulted in the Commission adopting rules which coordinate the various capital and notification requirements as well as provide capital relief on certain market maker options’ portfolios and foreign broker balances.

In that continuing effort, the Commission has recently adopted rules concerning the reporting requirements of FCMs and IBs. The rule amendments adopted by the Commission are published in the attached *Federal Register* and are effective June 30, 1997. The rule amendments provide as follows:

Filing Requirements of Quarterly and Monthly Financial Reports

- Financial reports required to be filed with the Commission (quarterly for FCMs and semiannually for IBs) must be filed within 17 business days (instead of 45 calendar days) of the end of the reporting period, generally month-end. However, the Commission has allowed a phase-in period for financial reporting periods from June 30, 1997 to December 31, 1997 during which time the financial report may be filed within 30 calendar days of month-end.
- Monthly net capital computations of FCMs and IBs not required to be filed with the Commission should be available for inspection within 17 business days (instead of 30 calendar days) of month-end. However, the Commission has also allowed the above phase-in period to apply to this requirement. FCMs and IBs are reminded that financial information, including monthly net capital computations, required to be filed with a regulatory organization should also be filed with the Commission.

Filing Requirements of Year-End Financial Reports

- An uncertified financial report as of the FCM's or IB's fiscal year-end is now required to be filed with the Commission within the requirements noted above.
- FCMs or IBs who are registered as broker-dealers must file their certified financial report with the Commission within 60 calendar days of their fiscal year-end in accordance with the filing requirements under SEC regulations. FCMs and IBs who are not registered as broker-dealers must file their certified financial report with the Commission within 90 calendar days of their fiscal year-end.
- All FCMs and IBs are required to provide a reconciliation with appropriate explanations if material differences exist between the FCM's or IB's certified and noncertified capital computation, and segregation and secured amounts statements. If no such differences exist, the certified financial report must contain a statement indicating that there are no material differences.

You should note that the Exchanges or the NFA may have other financial reporting requirements. Contact the Exchanges or the NFA for those requirements.

Debt to Equity Ratio

- The Debt to Equity Ratio has been amended such that the 30% minimum equity requirement would apply to all of the FCM's or IB's capital, rather than only to that portion necessary to meet the minimum financial requirements. This is consistent with the debt to equity ratio as calculated under SEC requirements.

Filing of Guarantee Agreements

- The requirement that a GIB file a copy of its guarantee agreement with the Commission's regional office has been eliminated. However, GIBs must continue to file the guarantee agreement with the NFA.

If you have any questions, please contact your DSRO.