

Joint Audit Committee

Regulatory Update

To: Chief Financial Officers 9706
Chief Compliance Officers

Date: August 11, 1997

Subject: Additional Relief from the Short Option Value Charge

At the request of the Joint Audit Committee, the CFTC has expanded the relief available to FCMs from the short option value charge. Previously, the relief from the short option value charge was only available for market professionals. The CFTC has extended the relief to any customer provided that the customer's net liquidating equity does not exceed 5% of the FCM's total net liquidating equity for all customer accounts. The total net liquidating equity equals the FCM's liability to all customers for positions on both domestic and foreign exchanges. For simplicity, the FCM may use the Amount Required to be Segregated (Segregation Statement, line 6) plus the Amount Required to be Set Aside in Separate 30.7 Accounts (Secured Statement, line 1). In order for any accounts which surpass this 5% threshold to qualify for the relief, the FCM must be able to demonstrate to the satisfaction of its DSRO its policies for monitoring the particular account from a credit and risk perspective.

In addition, the FCM must meet the following conditions to obtain relief from the short option value charge:

- The relief is limited to accounts which maintain in excess of 150% of SPAN margin/performance bond requirements. The FCM may reduce the short option value charge applicable to such customer's account by the excess of the account's net liquidating equity over 100% of its SPAN requirements.
- The FCM must obtain approval from its DSRO.
- The FCM must demonstrate that the short option positions in the account constitute risk reducing positions when applying for the relief and at the request of its DSRO.
- The FCM must continue to maintain any existing lines of credit, including subordinated debt agreements, in effect at the time of the relief.
- The FCM must maintain at least 50% of the relief granted as excess segregated funds.
- The relief is limited to 50% of the FCM's gross short option value charge.

The Joint Audit Committee is pleased that the CFTC expanded the relief available for the short option value charge. However, we remain committed to working with the CFTC to completely eliminate this onerous capital charge.

If you have any questions, please contact your DSRO.