

JOINT AUDIT COMMITTEE

**** REGULATORY UPDATE ****

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To: FCM Chief Financial Officers
Update #: 9805
FCM Compliance Officer

Date: March 31, 1998

Re: CFTC Proposal to Eliminate Capital Charge for Customer Short Option Value

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Please be advised that the Commodity Futures Trading Commission ("CFTC") has proposed to eliminate the current charge against the net capital of a registered Futures Commission Merchant ("FCM") calculated as four percent of the market value of both domestic and foreign short options maintained by the firm's regulated customers. The CFTC's formal proposal is included within the March 16, 1998 [FEDERAL REGISTER](#). A copy of the proposal is attached for your review and comment.

The CFTC is responding to long-held opinions of various aspects of the futures industry that the original intention, formulated in 1982, to have the short option value charge to serve as an additional capital safety factor is no longer applicable. The margin systems (ie. SPAN) currently used by the futures industry at both the Clearing Organization and Member FCM levels measure risk based on a customer's entire portfolio with short option value normally treated as an add-on factor. Thus, the margin system effectively serves as a financial safeguard leaving the capital charge to be deemed excessive.

The Joint Audit Committee ("JAC") has taken an active role in providing the CFTC with feedback obtained from the FCM community. Almost without exception the FCM community favored the elimination of the short option value charge.

The JAC suggests each FCM review the attached proposal and encourages the community to provide the CFTC with comments. Please be advised that the comment period expires May 15, 1998. If you would like to discuss the proposal please contact your applicable DSRO representative.

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The Joint Audit Committee ("JAC") is a representative committee of U.S. futures exchanges and regulatory organizations including the ACC, CBOT, CME, COMEX, KCBOT, MGE, NYCE, NYFE, NYMEX, PBOT, and the NFA. Regulatory Updates such as this are periodically distributed to keep the FCM community apprised of regulatory issues.

Chairman ('98-'99) --> Arthur McCoy (NYMEX)
Secretary ('98-'99) --> Robert Krewer (NFA)

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