

Joint Audit Committee

Regulatory Update

To: Chief Financial Officers 9807
Chief Compliance Officers

Date: July 1, 1998

Subject: CFTC Elimination of the Capital Charge for Customer Short Option Value

The Commodity Futures Trading Commission (“CFTC”) recently announced that, effective July 16, 1998, futures commission merchants (“FCMs”) will no longer be required to deduct from capital four percent of the market value of short options held by customers. The charge, which was created in 1982, was applicable to all customer short options, regardless of the customer’s trading strategy.

In eliminating this charge, the CFTC is responding to long-held opinions in the futures industry that the short option value charge did not correlate to the risks associated with these positions. With other protections currently in place, such as the SPAN® performance bond/margin system, self-regulatory audit and financial surveillance programs, large trader reporting requirements and sophisticated risk management systems at FCMs, the capital charge is no longer applicable.

However, for those firms which are dually registered as FCMs and broker/dealers, the Securities and Exchange Commission’s (“SEC”) regulations include a similar capital charge, which will continue to apply. Relief from the SEC’s charge is still available for those firms meeting the requirements set forth in [JAC Regulatory Update #9706](#).

The Joint Audit Committee has taken an active role in pursuing the elimination of this onerous charge and we are pleased that the CFTC has responded to the concerns of the industry. We will continue to work with the SEC to eliminate the charge in its entirety.

If you have any questions, please contact your DSRO.

[\[Federal Register attachment 1\]](#) [\[Federal Register attachment 2\]](#)