

Joint Audit Committee

Regulatory Update

TO: Chief Financial Officers **9901**
Chief Compliance Officers

DATE: January 11, 1999

RE: Recent CFTC Advisories Regarding Material Inadequacies Related to Year 2000 and New Euro-Currency Compliance

The CFTC has recently released two advisories, Advisory 42-98 and 47-98, addressing system and material inadequacy (MI) issues as they relate to year 2000 (Y2K) and new euro-currency compliance.

Year 2000

The CFTC is requiring all FCMs to file a supplemental report by its public accountant describing any material year 2000 problems found to exist or to have existed since the date of the previous audit. A "year 2000 problem" is a failure to address year 2000 mission-critical issues in an adequate and timely manner and would constitute a MI. Therefore, a year 2000 problem must be disclosed in the auditor's annual MI report. In addition to filing the report with the CFTC, it should be filed with all exchanges where the firm is a member. Also, if an independent auditor discovers an unreported MI condition at an FCM at **any** time, a notice must be filed with the CFTC and DSRO at that time.

The performance by a public accountant of an agreed-upon procedures attestation engagement will satisfy the CFTC's requirements with respect to the public accountant's responsibility for the identification of material inadequacies resulting from year 2000 problems. For SEC filers, the agreed upon procedures should be performed as of March 15, 1999 and filed by April 30, 1999. For non-SEC filers with fiscal years ending between October 1, 1998 and February 28, 1999, the agreed upon procedures should be performed as of the fiscal year end and filed concurrently with the annual audited financial statements. (For non-SEC filers with year-ends before October 1, 1998, the agreed upon procedures should have been filed by December 31, 1998.) Refer to the attached October 15, 1998 CFTC Advisory for complete details regarding the reporting requirements of certified public accountants.

As a reminder, in order to ensure FCMs will be prepared for the year 2000, participation in the Future Industry Association's year 2000 systems tests is **mandatory** for all FCMs.

The Joint Audit Committee is a representative committee of U.S. futures exchanges and regulatory organizations including the ACC, CBOT, CME, COMEX, CSC, KCBOT, MGE, NYCE, NYFE, NYMEX, PBOT and the NFA.