

Joint Audit Committee

Regulatory Update

TO: Chief Financial Officers 0003
Chief Compliance Officers

DATE: May 18, 2000

SUBJECT: CFTC Final Rules on Equity Withdrawal Restriction and Secured Demand Notes

The CFTC recently amended its rules regarding the equity withdrawal restriction and the haircut applied to secured demand note collateral.

CFTC Rule 1.17(e)(1)(ii), as amended, provides that equity capital of an FCM may be withdrawn if, after giving effect to the withdrawal, the capital of the FCM would exceed 6% of segregated and secured funds required for net capital. The CFTC reduced the percentage at the request of the Joint Audit Committee and after recognizing other safeguards of their financial surveillance rules.

In addition, CFTC Rule 1.17(h)(1)(iii) now provides that a 30% haircut should be applied to equity securities pledged as collateral for a secured demand note. This change is consistent with SEC rules.

The effective date of these amendments is May 22, 2000.

Attached is a copy of the Federal Register.

If you have any questions, please contact your DSRO.