

Joint Audit Committee

Regulatory Update

TO: Chief Financial Officers
Chief Compliance Officers

0004

DATE: July 6, 2000

SUBJECT: CFTC Proposed Rules

The CFTC recently proposed a new regulatory framework for our industry including broad revisions to its current regulatory scheme. In brief, these proposals provide for:

- The establishment of three regulatory tiers for futures markets depending upon the nature of the product and the sophistication of the customer. ([A New Regulatory Framework for Multilateral Transaction Execution Facilities, Intermediaries and Clearing Organizations](#));
- The amendments of certain rules relating to registration, fitness of registrants, financial requirements, risk disclosure, trading standards, supervision of personnel, position reporting, and recordkeeping of FCMs and IBs ([Rules Relating to Intermediaries of Commodity Interest Transactions](#));
- The requirement that certain transactions be cleared by recognized clearing organizations satisfying core principles covering financial resources, risk management, treatment of client funds, and settlement procedures. ([A New Regulatory Framework for Clearing Organizations](#)); and
- The expansion and clarification of its Part 35 Exemption for Swap Agreements ([Exemption for Bilateral Transactions](#)).

Among these proposals, the Commission is proposing to expand the list of allowable investments of segregated funds and is seeking input on developing rules to allow customers to “opt out” of segregation.

These proposals were published in the *Federal Register* (June 22, 2000, Vol. 65, No. 121, at pages 38986, 39008, 39027, and 39033, respectively) and can be found on the CFTC’s web site at www.cftc.gov and on the Joint Audit Committee’s web site at www.wjammer.com/jac.

We encourage you to review the proposed rules and provide the Commission with your comments which are due by August 7, 2000.

If you have any questions, please contact your DSRO.