Joint Audit Committee

Regulatory Update

TO: Chief Financial Officers 03-05
Chief Compliance Officers

DATE: July 18, 2003

SUBJECT: CFTC Proposed Rules on Risk-Based Capital and Other Reporting Requirements

The CFTC has recently proposed revisions to its capital, undermargin charge grace period and early warning notification requirements. The Commission has proposed to:

- Eliminate the existing capital requirement based on segregated customer funds and replace it with a risk-based capital requirement based on maintenance margin levels of customer and noncustomer accounts. The Commission's proposed requirement is identical to the requirements already adopted and enforced by several exchanges and the NFA.
- Require an early warning notification if an FCM's capital decreases below 150% of the risk-based capital requirement.
- Shorten the number of days a margin call is available to reduce the undermargined capital charge to three days for both customer and noncustomer accounts. Currently, the grace period for customer and noncustomer accounts is five and four days, respectively.

The Commission has also proposed other changes which include requiring monthly financial statements from FCMs, reducing the time period required for filing certain early warning notices and obtaining approval from the DSRO for changes in fiscal year ends or extensions of financial statement filing deadlines.

These proposals were published in the *Federal Register* (July 9, 2003, Vol. 68, No. 131, at page 40835) and can be found on the CFTC's Web site at www.cftc.gov.

We encourage you to review the proposed rule amendments and provide the Commission with your comments which are due by September 8, 2003.

If you have any questions, please consult your DSRO.