

Joint Audit Committee

Regulatory Update

TO: Chief Financial Officers
Chief Compliance Officers

03-06

DATE: December 17, 2003

SUBJECT: The Clearing Corporation Stock Valuation and Presentation

On October 23, 2003 The Clearing Corporation stockholders approved a corporate restructure and capital re-alignment. Within the new structure, shareholders now own "Class A" common stock. This common stock is not considered a current asset in computing adjusted net capital within Commission Rule 1.17(c)(2)(vii). However, The Clearing Corporation requested that the CFTC not enforce action against current asset classification. In response, the CFTC issued No-Action Letter 03-37, outlining the treatment of such stock in computing adjusted net capital. A copy of CFTC Letter 03-37 may be obtained from the CFTC website, www.cftc.gov. The Joint Audit Committee has summarized the balance sheet presentation and regulatory capital impact below.

Balance Sheet Presentation

- Shares of Clearing Corporation stock are to be valued at cost on the balance sheet.
- Only those shares held within the Clearing Corporation guaranty fund are allowable for capital and are to be reported as current on the balance sheet. FCMs should reflect guaranty fund shares within 1FR line 5.C., box 1150, Receivables From and Deposits With Commodity Clearing Organizations-Guarantee Deposits. Broker-Dealers should reflect guaranty fund shares within Focus II line 3.D.2., box 290, Receivables From Brokers or Dealers and Clearing Organizations-Clearing Organizations-Other.
- Any shares not held within the guaranty fund of the Clearing Corporation are to be reported as non-current on the balance sheet. FCMs should reflect non-current shares within 1FR line 3.D., box 1105, Securities-Stock In Clearing Organization. Broker-Dealers should reflect non-current shares within Focus II line 8.B., box 610, Securities Owned Not Readily Marketable.

Regulatory Capital

- Shares of Clearing Corporation stock, held within the guaranty fund, are allowable for capital at book value/market value less applicable capital charges. CFTC No-Action Letter 03-37 outlines the capital charge calculation. The charge may fluctuate based on The Clearing Corporation's liquidity. FCMs should reflect the valuation adjustment from balance sheet cost to book value/market value less applicable haircuts within Capital Computation line 2, box 3010, Increase/Decrease To Clearing Organization Stock. Broker-Dealers should continue to reflect the valuation adjustment from balance sheet cost to book value/market value less applicable haircuts within the Capital Computation location consistent with the firm's prior clearing organization stock adjustments.
- Shares of Clearing Corporation stock, held outside the guaranty fund, are non-allowable assets, not good for capital. No capital increase or capital charge is applicable for shares held outside the guarantee fund.

If you have any questions, please contact your DSRO.

