

Joint Audit Committee

Regulatory Update

TO: Chief Financial Officers
Chief Compliance Officers

#04-06

DATE: October 1, 2004

SUBJECT: **Subloan Templates for CFTC Adoption of Risk-Based Capital**

In conjunction with the CFTC's adoption of risk-based capital requirements (see JAC Regulatory Update #04-04) the Joint Audit Committee has amended its templates for subordinated loan agreements to incorporate the revisions to Regulation §1.17 . The effected provisions of the agreements are as follows:

1. Reducing the Principal Amount of Secured Demand Notes
2. Permissive and Special Prepayments
3. Suspended Repayments
4. Accelerated Maturities
5. Notices of Maturity or Accelerated Maturity

The amendments to Regulation §1.17 are effective September 30, 2004. Satisfactory subordinated loan agreements in effect as of September 30, 2004 will be grandfathered in and shall continue to be deemed satisfactory subordinated debt until maturity. However, any subordinated loan agreements which are amended or renewed for any reason after such date must be amended for the new requirements as detailed in the regulations. Note: Special prepayments of revolving subordinated debt loans must satisfy the new requirements regardless of the age of the original agreement.

The amended subordinated loan templates are available for download from the Joint Audit Committee's website at <http://www.wjammer.com/jac/>.

If you have any questions, please consult your DSRO.