

Joint Audit Committee

Regulatory Update

TO: Chief Financial Officers
Chief Compliance Officers #07-01

DATE: March 9, 2007

SUBJECT: CFTC Regulations 1.12 and 1.17 Amendments – Limitations on Withdrawals of Equity Capital

The CFTC recently adopted amendments to its restrictions on equity withdrawal transactions. These amendments are summarized below and become effective March 12, 2007.

Under the amendments to Regulation 1.17, the Commission may issue a written order to impose temporary restrictions on equity withdrawals for a period of up to twenty business days (and the CFTC may also make successive subsequent orders, each for no longer than twenty days). This order would restrict any withdrawal by the FCM of equity capital, or any unsecured advance or loan to a stockholder, partner, limited liability company member, sole proprietor, employee or affiliate, if the Commission determines that the following conditions are met:

- The withdrawal from the FCM, or a consolidated affiliate/subsidiary, when aggregated with all other withdrawals during a 30 calendar day period would cause a net reduction in Excess Adjusted Net Capital of 30% or more; and
- The Commission has concluded that such withdrawal may be detrimental to the financial integrity of the FCM, or may unduly jeopardize its ability to meet customer obligations or other liabilities that may cause significant impact on the markets.

This amendment also allows the FCM to file a written petition to request that the Commission rescind its order temporarily restricting equity withdrawals from the FCM.

Additionally, the Commission amended Regulations 1.12 and 1.17 to include references to limited liability companies where applicable.

The amendments were published in the Federal Register on January 10, 2007 and may be found on the CFTC's Web Site at www.cftc.gov.

If you have any questions, please consult your DSRO.