

# Joint Audit Committee

## Regulatory Update

TO: Chief Financial Officers  
Chief Compliance Officers

#07-02

DATE: June 11, 2007

SUBJECT: Letters of Credit and Revised Margin Deposit Acceptability by Exchange Exhibit

Recently we have received several inquiries concerning letters of credit. Additionally, it has come to our attention that reports generated by certain of the industry's bookkeeping services may reflect letters of credit with other securities resulting in debit/deficit balances being improperly secured and/or offset with letters of credit. Please note that it is the FCM's responsibility to make the appropriate adjustments when performing financial reporting if its bookkeeping system records letters of credit with other securities.

The following summary is intended to serve as a reminder of the regulatory treatment of letters of credit received by FCMs from their customers.

### **Margin**

If certain requirements are met, a letter of credit may be used as an acceptable margin deposit for positions at specific exchanges. Refer to the attached "Margin Deposits Acceptability by Exchange" exhibit.

### **Debit/Deficits**

Letters of credit cannot be used to secure a debit/deficit on the balance sheet or offset a debit/deficit on the segregation and secured amounts statements. FCMs should be aware that letters of credit may be reflected on bookkeeping systems with other securities. An FCM that assigns a margin value to letters of credit in its bookkeeping system should note that this value should be eliminated when analyzing debit/deficits for intra-month and month-end financial reporting purposes.

### **Financial Statements**

Letters of credit should not be reported anywhere on the Form 1-FR or FOCUS Report statements.

If you have any questions, please consult your DSRO.

**MARGIN DEPOSITS ACCEPTABILITY BY EXCHANGE**  
**June 2007**

Exchange/ Division	Rule	Foreign Currencies	U.S. Gov't Obligations	U.S. Gov't Agencies	Municipal Bonds	Equity Securities	U.S. Deliverable Warehouse Receipts	Irrevocable Letters of Credit	Loans	Other
<b>CBOT</b>	CBOT 431.02	YES	YES	YES	YES	YES	YES(2)	YES	NO	Any Readily Marketable Security, MMMF(1)
<b>CCFE</b>	CCFE 520	YES	YES	YES	YES	YES	NO	YES	NO	Any Readily Marketable Security, MMMF(1)
<b>CFE</b>	CFE 516(d)	YES	YES	YES	YES	YES	NO	YES	YES (If Secured)	Any Readily Marketable Security, MMMF(1)
<b>CME</b>	CME 930.C.	YES	YES	YES	YES	YES	NO	YES	YES (If Secured)	Any Readily Marketable Security, MMMF(1)
<b>KCBOT</b>	KCBOT 1160.01	NO	YES	NO	NO	YES	NO	YES	NO	NO
<b>MGEX</b>	MGEX 760	YES	YES	YES	YES	YES	YES (Wheat, Corn and Soybeans only)	YES	YES (If Secured)	NO
<b>NYBOT</b>	NYBOT 5.03	YES	YES	NO	NO	YES	YES(3) See Rule 5.03 (j) (vi) (vii) and (viii)	YES	YES	MMMF(1)
<b>NYMEX:</b>										
<b>NYMEX</b>	NYMEX 4.01(E)(1)	YES	YES (if maturity < 10 yrs)	NO	NO	YES	YES(4) (NYMEX/COMEX products only)	YES	YES (If Secured)	NO
<b>COMEX</b>	NYMEX 4.01(E)(1)	YES	YES (if maturity < 10 yrs)	NO	NO	YES	YES(4) (NYMEX/COMEX products only)	YES	YES (If Secured)	NO
<b>OneChicago</b>	OneChicago 515(d)	YES	YES	YES	YES	YES	NO	NO	NO	MMMF(1), Margin Securities as defined by Regulation T
<b>PBOT</b>	PBOT 1006(d)(2)	YES	YES	NO	YES	YES	NO	YES	NO	NO
<b>USFE</b>	USFE Bulletin 04-001	YES	YES	YES	YES	YES	YES	YES	NO	Any Readily Marketable Security, MMMF(1)

All exchanges accept U.S. dollars. For all acceptable margin deposits, specific requirements, and their respective valuation/haircuts, refer to the individual exchange rules noted above.

(1) Money Market Mutual Funds (MMMF) are acceptable under CFTC 1.25 for futures and options on futures contracts and under CFTC 41.46(b)(2) for security futures products.

(2) 80% of the market value of unhedged warehouse receipts or electronic shipping certificates; 95% of the market value of hedged warehouse receipts or electronic shipping certificates

(3) 70% of the spot price for electronic WHR covering coffee, cocoa, and cotton and negotiable WHR of negotiable shipping certificates covering FCOJ

(4) 75% of the market value