

Joint Audit Committee

Regulatory Update

TO: Chief Financial Officers
Chief Compliance Officers

#07-03

DATE: December 12, 2007

SUBJECT: Investments – Due Diligence Reminder

Today firms have a wide range of investment opportunities. With recent market events, a thorough understanding of your investments and their exposures to the credit market challenges is essential to prudently manage your investment portfolio.

CFTC Regulations set requirements for investments to be allowable for capital purposes (with appropriate haircuts) as well as good segregated and secured 30.7 assets. Beyond the requirements of the regulations, each FCM is responsible for determining prudent investment policies. Given the current events reported in the structured finance and mortgage markets (i.e. various write-downs, credit downgrades, SIV-related exposures), FCMs are reminded to perform their own due diligence with respect to investment alternatives and to be cognizant of concentration risks.

If you have any questions, please consult your DSRO.