Joint Audit Committee

Regulatory Update

TO:	Chief Financial Officers Chief Compliance Officers	08-03
DATE:	March 27, 2008	
SUBJECT:	Margining Accounts in Different Origins	

Based on the results of recent examinations and as the markets become more globalized, this JAC Regulatory Update serves as a reminder that futures commission merchants (FCMs) may NOT apply free funds in an account under identical ownership but of a different classification or account type (e.g. securities, customer segregated, customer secured) to an account's margin deficiency. The funds must actually transfer to the identically owned undermargined account in order for them to be used for margin purposes. An equity system transfer is permissible when the firm maintains excess segregated or secured funds in an amount at least equal to the dollar value of the credit entry.

The failure to comply with these requirements may subject the firm to an immediate charge to capital for undermargined accounts as well as violations of various SRO margin rules. In order to avoid the immediate charge for undermargined accounts, the equity system transfer referred to above must take place on the business day immediately following the business day that the margin deficiency occurred.

For reference, please refer to Chapter 9 of the JAC's Margins Handbook which sets forth requirements for combining accounts for margin purposes. The Margins Handbook may be found at http://www.wjammer.com/jac/.

If you have any questions, please consult your DSRO.