Joint Audit Committee

REGULATORY UPDATE

TO: Chief Financial Officers
Chief Compliance Officers #09-03

DATE: March 2, 2009

SUBJECT: Update - The Reserve Primary Fund Valuation

Effective September 22, 2008, the SEC issued an order (Release No. 28386) pursuant to section 22(e)(3) of the Investment Company Act of 1940 temporarily suspending redemption of shares and postponing payment for shares which have been submitted for redemption of the Reserve Primary Fund until the markets are liquid to a degree that enables each Fund to liquidate portfolio securities without impairing the NAV of each Fund. The Reserve Primary Fund has subsequently made distributions on October 30, 2008, December 3, 2008, and February 20, 2009.

In a press release dated February 26, 2009, the Reserve Fund has set aside $3.5 billion in a special reserve to pay for costs and expenses related to the liquidation of the assets of the Reserve Primary Fund.

The CFTC has issued a staff letter (attached) outlining the proper treatment and valuation of the Reserve Primary Fund investments.

All Reserve Primary Fund investments, regardless of redemption date, should be valued for customer segregation, secured 30.7 and capital at a maximum of $0.42 per share as of March 6, 2009.

Furthermore, should the Reserve Primary Fund or SEC report a lower net asset value at any time, the lower net asset value must be applied instead.

A 2% haircut on the market value of the investment should continue to be taken when calculating regulatory capital.

If you have any questions, please consult your DSRO.

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Division of Clearing and
Intermediary Oversight

Ananda Radhakrishnan
Director

March 2, 2009

Debra K. Kokal
Director, Audit Department
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Re: Request for Updated Guidance

Dear Ms. Kokal:

This letter updates the guidance that the Division of Clearing and Intermediary Oversight (the "Division") previously provided to the Joint Audit Committee (the "JAC") by letter dated September 24, 2008. Both this letter and the earlier letter to the JAC address regulatory reporting requirements applicable to futures commission merchants ("FCMs") with investments in the Reserve Primary Fund, a regulated money market mutual fund.

By order of the Securities and Exchange Commission ("SEC") dated September 22, 2008, the Reserve Primary Fund was permitted to suspend redemptions and postpone payments temporarily. In view of the facts and circumstances at the time, the Division provided guidance that FCM financial filings as of October 3, 2008 and later should apply a net asset value of 92 cents to investments in the Reserve Primary Fund. To date, FCMs have received distributions from the Reserve Primary Fund on October 30, 2008, December 3, 2008, and February 20, 2009.

The majority of securities remaining in the fund will not mature prior to June 30, 2009. The Reserve Primary Fund also issued a press release, dated February 26, 2009, announcing that it had set aside $3.5 billion as a special reserve related to pending litigation against the fund. This latest development increases the uncertainty as to the extent and timing of future distributions from the fund, and the valuation of investments in the fund must be further reduced in FCM regulatory financial filings going forward.

Effective March 6, 2009, FCMs must reduce the per share value of their investments in the Reserve Primary Fund to 42 cents for purposes of their customer segregation, Part 30 secured amount, and adjusted net capital computations. In addition, FCMs must continue to apply the 2% capital deduction required by Regulation 1.17.

Division staff will continue to monitor developments related to the Reserve Primary Fund and to provide further guidance in accordance with such developments. The Division further states that this letter is applicable solely to regulatory reporting requirements with respect to investments in the Reserve

Primary Fund. It does not excuse any FCM from compliance with any other applicable requirements contained in the Act or in the Commission's regulations issued thereunder.

This letter is based upon the representations made to the Division to date. Any different, changed, or omitted material facts or circumstances might render this letter void. Moreover, this letter represents the position of the Division only and does not necessarily represent the views of the Commission or those of any other division or office of the Commission. If you have any questions concerning this correspondence, please contact Thelma Diaz, Associate Director, at (202) 418-5137.

Very truly yours,

Ananda Radhakrishnan
Director