Joint Audit Committee

REGULATORY UPDATE

TO: Chief Financial Officers #11-04
Chief Compliance Officers

DATE: November 29, 2011

SUBJECT: UPDATE - Balances Held with MF Global Inc. and Affiliated Entities

The Joint Audit Committee issued JAC Update #11-02 on November 4, 2011 regarding balances held with MF Global Inc. and affiliated entities ("MF Entities"). This JAC Update is intended to further clarify regulatory treatment of balances held with MF Entities.

MF Global Holdings Ltd., the holding company for MF Global, Inc. and other affiliated entities filed for bankruptcy protection on Monday, October 31, 2011. As a result, FCMs were required to reflect trading balances held with MF Entities as of October 31, 2011 at 60% of account balances (net liquidating value plus securities on deposit) for customer segregation and secured 30.7 reporting purposes. In addition, FCM only firms reflected customer segregated, secured 30.7 and house trading balances at 60% of account balances as of October 31, 2011 (net liquidating value plus securities on deposit for regulatory capital reporting purposes.

In conjunction with the interim distributions, for clarification, the 40% of trading balances with MF Entities as of October 31, 2011 not included on segregation and secured 30.7 statements and reflected as a non-current asset on the balance sheet for regulatory capital purposes should remain at the same amount until the 60% of MF Entities balances are received. That is, any interim distribution should only reduce the MF Entities trading balances reflected on the segregation and secured 30.7 statements and as a current asset on the balance sheet for regulatory capital purposes until such balances (that is, the 60% of the October 31, 2011 balances) are received. Any subsequent distributions would then reduce the non-current receivables from MF Entities – the 40% of the October 31, 2011 balances.

For example, an FCM maintained a customer segregated trading account balance with an MF Entity of $100 as of October 31, 2011. The FCM may only reflect a balance of $60 (60% of $100) for customer segregation and regulatory capital purposes. If in November 2011, positions and a portion of collateral with a net value of $40 were transferred to another FCM, the remaining MF Entity account balance would be $60. The FCM would reflect a balance of $20 (60% of $100 less $40 interim distribution) for customer segregation and regulatory capital purposes. **The FCM would continue to omit the original 40% MF Entity balance from the segregation statement and record it as a non-current asset on the balance sheet for regulatory reporting purposes – in this example $40 would continue to be recorded as non-current.**

For dually registered FCM-Broker/Dealers, please contact your DEA or the SEC for regulatory capital reporting requirements.

All other receivable balances with MF Entities, including commission and security deposit receivables, must be reflected as a non-current / non-allowable asset for regulatory capital reporting purposes.

The JAC has confirmed this treatment with CFTC staff. This financial treatment is subject to change.

If you have any questions, please contact your DSRO.