

# Joint Audit Committee

## REGULATORY UPDATE

TO: Chief Financial Officers  
Chief Compliance Officers

#12-01

DATE: January 10, 2012

SUBJECT: CFTC Regulations 1.25 and 30.7 – Investment of Customer Segregated and Secured Amount Funds

CFTC Regulations 1.25 and 30.7 were revised and will become effective February 17, 2012. Revised CFTC Regulation 1.25 provides requirements for the investment of customer segregated funds with a goal of enhancing the preservation of principal and maintenance of liquidity. CFTC Regulation 30.7 was revised to align permitted investments with those under CFTC Regulation 1.25. The revised rules address, among other things:

- Certain changes to the list of permitted investments, including, but not limited to, the elimination of foreign sovereign debt as a permitted investment, and the elimination of in-house and affiliate repurchase and reverse repurchase transactions;
- Replacement of the “readily marketable” criterion with a “highly liquid” standard;
- The removal of rating requirements;
- An expansion of concentration limits including asset-based, issuer-based, and counterparty restrictions;
- Revisions to the acknowledgement letter requirement for investment in a money market mutual fund (“MMMM”);
- Clarification to the list of exceptions to the next-day redemption requirement for MMMFs;
- The application of customer segregated funds investment limitations to 30.7 funds; and
- Changes to depository requirements for investments of 30.7 funds.

The final rule was published in the attached Federal Register (December 19, 2011, Vol. 76, No. 243, at page 78776) and can be found on the CFTC’s web site at <http://www.cftc.gov/LawRegulation/FederalRegister/FinalRules/2011-31689>.

All FCMs must be in compliance with this rule not later than June 18, 2012.

If you have any questions, please contact your DSRO.