

CFTC Letter No. 99-09**February 4, 1999****Interpretation****Division of Trading & Markets**

Mr. Arthur McCoy, Chairman
Joint Audit Committee
c/o New York Mercantile
Exchange
One North End Avenue
World Financial Center
New York, NY 10282-1101

RE: Review of Subordinated Loan Agreements

Dear Mr. McCoy:

The Division of Trading and Markets' ("Division") Financial and Segregation Interpretation No. 4-1 provides in Paragraph 41 that:

The DSRO must set up a program for reviewing subordinated loan agreements on an ongoing basis to ensure that such agreements conform to the requirements for satisfactory subordination agreements, that secured demand notes are fully collateralized, and that the debt/equity ratio is within required parameters. In addition, the DSRO must have procedures for monitoring maturing subordinated loans, assessing the effect of such maturities on net capital compliance and ensuring appropriate action is taken by the FCM or IB to remain in capital compliance.

Paragraph 25(c) of Interpretation 4-1 requires each DSRO, in addition to maintaining the program to review subordinated loan agreements described above, to file a monthly report with the closest regional office of the Commission containing a summary of all actions the DSRO has taken during the preceding month with respect to subordinated loan agreements. In the Division's continuing efforts to streamline regulatory reporting requirements, Division staff has concluded that it no longer needs this monthly report. A DSRO will no longer be required to submit monthly reports that summarize subordinated loan activity and actions taken in regard to reviews of subordinated loan agreements, provided the DSRO: (1) maintains complete records of such activities, (2) makes these records readily available to Commission staff upon request, and (3) promptly notifies the Commission's regional Audit

Branch of any disapproval of a subordinated loan agreement.

Please advise the members of the Joint Audit Committee of this determination. If you have questions, please contact me, or Henry J. Matecki, Branch Chief in our Chicago, Illinois office, at (312) 353-5990.

Very
truly
yours,

John C.
Lawton

Acting
Deputy
Director

cc: CFTC Regional Audit Branches

cc: Bjarnason, T&M, D.C.

Matecki

Zimmerle

Edwards

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