

**Securities Industry Association**

120 Broadway, New York, NY 10271-0080, (212) 608-1500, Fax (212) 608-1604
1401 Eye Street, NW, Washington, DC 20005-2225, (202) 296-9410, Fax (202) 296-9775
info@sia.com, <http://www.sia.com>

April 11, 1996

Ms. Jean A. Webb
Secretary of the Commission
Commodity Futures Trading Commission
1155 21st Street, NW
Washington, DC 20581

**Re: Financial Reporting Cycle and Debt-Equity Ratio Requirements for
Futures Commission Merchants and Introducing Brokers
61 Fed. Reg. 7080 (February 26, 1996)**

Dear Ms. Webb:

The Capital Committee ("the Committee") of the Securities Industry Association ("SIA") appreciates this opportunity to comment on the amendments proposed by the Commodity Futures Trading Commission ("Commission" or "CFTC") to the Commission's financial reporting requirements for futures commission merchants ("FCMs") and introducing brokers. The proposed amendments to certain Commission rules are intended to conform certain of the Commission's minimum financial and related reporting requirements with comparable requirements imposed on broker-dealers by the Securities and Exchange Commission ("SEC"). As we discuss below, the Committee supports several of the proposed rule changes, but believes that certain of the proposed amendments should be deferred or modified.

Summary of Proposed Amendments

The Commission proposes to amend rule 1.10 to reduce from 45 calendar days to 17 business days the time in which unaudited financial reports must be filed with the Commission at the end of a reporting period. Rule 1.10 would also be modified to reduce from 90 to 60 days the time in which year-end certified financial reports must be filed with the CFTC. A related proposed amendment would delete rule 1.52, which permits a self-regulatory organization to allow its member FCMs to file financial reports semi-annually rather than quarterly.

The Commission also proposes to amend the debt-equity provisions of rule 1.17(d). Under the proposed amendment, the requirement that a registrant (whether an FCM or an introducing broker) must maintain equity in an amount at least equal to

30 per cent of the registrant's minimum capital requirement would be changed to 30 per cent of all of the registrant's capital, as defined. In addition, the Commission invites comment on whether rule 1.17(d)(2) should be amended to define the debt-equity total so as to subtract goodwill net of amortization.

Finally, the Commission proposes to amend rule 1.18(b) to reduce from 30 calendar days to 10 calendar days the time in which an FCM or independent introducing broker must prepare a formal computation of its month-end adjusted net capital and minimum financial requirements.

Committee Comments

Computation Time Period. The Committee has serious concerns about the proposed amendments to rule 1.18. In the Committee's judgment, the proposed 10-business day time period will simply not be enough time for an FCM to reconcile information and compute its adjusted net capital and minimum financial requirement. It should be noted that securities designated examining authorities generally permit their member broker-dealers 17 business days to prepare the FOCUS Report. Moreover, FOCUS Part I reports are often not required by the National Association of Securities Dealers ("NASD"), and the New York Stock Exchange gives its members 17 business days to prepare a Focus Part II report. Accordingly, under this proposal the capital computation for broker-dealers with FCM affiliates would have to be prepared 7 business days earlier than is currently required, a substantial compression of time.

Debt-Equity Ratios. The Committee applauds the Commission's proposal to amend the debt equity ratio provisions of rule 1.17(d) so as to make them consistent with SEC requirements. Since many of the Committee's members are dually registered as broker-dealers and FCMs, or are broker-dealers with FCM affiliates, the Committee appreciates efforts such as this to harmonize CFTC and SEC requirements.

In response to the Commission's request for comment, the Committee does not think it would be appropriate to subtract goodwill net of amortization in calculating debt-equity ratios under rule 1.17. As the release notes, the number of firms reporting goodwill as an asset is insignificant. Moreover, unless the SEC were to make an identical conforming rule change, this adjustment would create a new disparity between CFTC and SEC requirements. This would be at cross-purposes to the overall intention of the Release to reduce disparities between CFTC and SEC requirements. The Committee does not believe that such a change is warranted.

Filing Periods. The Committee supports the Commission's proposal that the time period for FCMs and independent introducing brokers to make certain required filings should be shortened. However, in some respects we do not think that it is appropriate to make the time requirements identical to SEC requirements. For example, some members of the Committee are responsible for filing both as registered

broker-dealers and as FCMs. Requiring such firms' regulatory compliance staffs to file both FOCUS reports and Form 1-FR within a 17 business day window would be extremely difficult. Moreover, the Committee understands that the CFTC and SEC plan to propose a new financial reporting form that will replace both the Form 1-FR and the FOCUS report. If, as the Commission notes in its release, the combined form will require more detailed schedules and statements, the 17 business day time frame becomes even more problematic. Consequently, the Committee recommends reducing the current 45 calendar day time frame to 30 calendar days. The Committee also requests the opportunity to submit additional comments if the new FOCUS report is adopted.

The Committee supports the Commission proposal to delete the provisions of rule 1.52, which permit a self-regulatory agency to allow its member FCMs to file financial reports semi-annually rather than quarterly.

The Committee does not take a position on the proposal that the filing deadline for year-end certified financial reports should be reduced from 90 days to 60 days. However, the Committee suggests that the Commission should solicit views from public accountants as to whether such a shortened deadline is practical, in light of the fact that public accountants are called upon to audit both broker-dealers and FCMs within that time frame.

Finally, the Committee believes that there should be a delayed phase-in of approximately six months for any new filing deadlines to allow firms to add the necessary resources to comply with the shortened time frames.

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The Committee appreciates the opportunity to comment on these proposed amendments to the Commission's minimum financial requirements and related reporting requirements. If you have any questions regarding these comments, please contact the undersigned at (212) 322-1787 or George Kramer, SIA General Counsel, at (202) 296-9410.

Sincerely,

Rochelle Pullman
Chairman
SIA Capital Committee

cc:

Andrea Corcoran
Director, Division of Trading and Markets

Lawrence B. Patent
Associate Chief Counsel
Division of Trading and Markets

Michael Macchiaroli
Associate Director
Division of Market Regulation
Securities and Exchange Commission

Note:

In a related vein, the Committee recommends that the Commission amend its financial reporting requirements to permit designated self-regulatory organizations, consistent with CFTC requirements, to grant extensions of time in which to comply with applicable filing requirements. Self-regulatory organizations are given such flexibility by the SEC under its rule 17a-5.