NET CAPITAL REQUIREMENTS FOR BROKERS OR DEALERS
SEA Rule 15c3-1

(a) NET CAPITAL REQUIREMENTS FOR BROKERS OR DEALERS

Every broker or dealer must at all times have and maintain net capital no less than the greater of the highest minimum requirement applicable to its ratio requirement under paragraph (a)(1) of this section, or to any of its activities under paragraph (a)(2) of this section, and must otherwise not be "insolvent" as that term is defined in paragraph (c)(16) of this section.

/001 Moment to Moment Net Capital

Broker-dealers must maintain sufficient net capital at all times prior to, during and after purchasing or selling proprietary securities. Broker-dealers must have at all times (including intraday) sufficient net capital to meet the haircut requirements of the Capital Rule before taking on any new proprietary positions, even if the intention of the firm is to liquidate or cover the positions before the end of the same day. Broker-dealers are expected to be able to demonstrate moment to moment compliance with the Capital Rule.

(SEC Staff to NYSE) (No. 99-8, August 1999)

/01 Additional Net Capital Requirement

The net capital requirement is increased by one percent of accrued liabilities that are excluded from aggregate indebtedness under the provisions specified at interpretation 15c3-1(c)(2)(iv)(C)/09.

(SEC Letter to NASD, July 24, 1984) (No. 87-6, May 1987)

/02 Consolidations, Minimum Net Capital Requirement

The minimum net capital requirement of the consolidated entity is determined by adding the amount of net capital required for compliance by each consolidated subsidiary subject to the Rule to the minimum dollar net capital requirement of the parent broker-dealer.

See Appendix C interpretation 15c3-1c(c)/022.

(SEC Staff to NYSE)

(a) NET CAPITAL REQUIREMENTS FOR BROKERS OR DEALERS (continued)

/03 Inactive Exchange Members

An inactive Exchange member is not subject to a net capital requirement so long as he is not conducting or engaged in the securities business.

(SEC Staff to NYSE)

/04 Registered Traders

A registered Trader (other than a registered trader in options) is subject to a net capital requirement if he trades for his own account. This is so even if he is associated with another broker-dealer. If he trades only for the account of the broker-dealer he is associated with, he is not individually subject to a requirement.

(SEC Staff to NYSE)

(NEXT PAGE IS 11)

(a)(1) RATIO REQUIREMENTS

(i) AGGREGATE INDEBTEDNESS STANDARD

No broker or dealer, other than one that elects the provisions of paragraph (a)(1)(ii) of this section, shall permit its aggregate indebtedness to all other persons to exceed 1500 percent of its net capital (or 800 percent of its net capital for 12 months after commencing business as a broker or dealer).

/01 New Broker-Dealers

A new broker-dealer is considered to have commenced doing a business on the date it becomes effectively registered with the Commission. If a firm remains inactive for all or a portion of its first year of existence to circumvent the 8 to 1 ratio requirement, the SEC has the authority to cancel its registration pursuant to Section 15b-5 of the Securities Exchange Act of 1934, as amended.

(SEC Staff to NASD)

(a)(1) RATIO REQUIREMENTS (continued)

(ii) ALTERNATIVE STANDARD

A broker or dealer may elect not to be subject to the Aggregate Indebtedness Standard of paragraph (a)(1)(i) of this section. That broker or dealer shall not permit its net capital to be less than the greater of $250,000 or 2 percent of aggregate debit items computed in accordance with the Formula for Determination of Reserve Requirements for Brokers and Dealers (Exhibit A to Rule 15c3-3, § 240.15c3-3a). Such broker or dealer shall notify its Examining Authority, in writing, of its election to operate under this paragraph (a)(1)(ii). Once a broker or dealer has notified its Examining Authority, it shall continue to operate under this paragraph unless a change is approved upon application to the Commission. A broker or dealer that elects this standard and is not exempt from Rule 15c3-3 shall:

(A) make the computation required by § 240.15c3-3(e) and set forth in Exhibit A, § 240.15c3-3a, on a weekly basis and, in lieu of the 1 percent reduction of certain debit items required by Note E (3) in the computation of its Exhibit A requirement, reduce aggregate debit items in such computation by 3 percent;

(B) include in items 7 and 8 of Exhibit A, § 240.15c3-3a, the market value of items specified therein more than 7 business days old;

(C) exclude credit balances in accounts representing amounts payable for securities not yet received from the issuer or its agent which securities are specified in paragraphs (c)(2)(vi)(A) and (E) of this section and any related debit items from the Exhibit A requirement for 3 business days; and

(D) deduct from net worth in computing net capital 1 percent of the contract value of all failed to deliver contracts or securities borrowed that were allocated to failed to receive contracts of the same issue and which thereby were excluded from Items 11 or 12 of Exhibit A, § 240.15c3-3a.

(a)(1)(ii) RATIO REQUIREMENTS; ALTERNATIVE STANDARD (continued)

/01 Minimum Capital Requirement

The 2% minimum net capital requirement is based on the aggregate SEA Rule 15c3-3 Reserve Formula debit items before the 3% reduction required by SEA Rule 15c3-1(a)(1)(ii)(A).

(SEC Staff to NYSE)

The net capital requirement as of a given moment in time is based on the aggregate Reserve Formula debits then existing just as if a Formula computation had been prepared. The moment-to-moment requirement is not based on the most recent formal weekly Reserve Formula computation.

(SEC Staff to NYSE) (No. 76-2, February 1976)

/02 Approximation and Netting

A broker electing the alternative may not use the approximation and netting procedures outlined in SEC Release 34-9922 (under SEA Rule 15c3-3(e) Special Reserve Bank Account for the Exclusive Benefit of Customers) in making the weekly computation. A complete and accurate calculation must be made every week.

(SEC Staff to NYSE)

(a)(1) RATIO REQUIREMENTS (continued)

(iii) FUTURES COMMISSION MERCHANTS

No broker or dealer registered as a futures commission merchant shall permit its net capital to be less than the greater of its requirement under paragraph (a)(1)(i) or (ii) of this section, or 4 percent of the funds required to be segregated pursuant to the Commodity Exchange Act and the regulations thereunder (less the market value of commodity options purchased by option customers on or subject to the rules of a contract market, each such deduction not to exceed the amount of funds in the customer's account).

(NEXT PAGE IS 21)

(a)(2) MINIMUM REQUIREMENTS

(i) BROKERS OR DEALERS THAT CARRY CUSTOMER ACCOUNTS

A broker or dealer (other than one described in paragraphs (a)(2)(ii) or (a)(8) of this section) shall maintain net capital of not less than $250,000 if it carries customer or broker or dealer accounts and receives or holds funds or securities for those persons. A broker or dealer shall be deemed to receive funds, or to carry customer or broker or dealer accounts and to receive funds from those persons if, in connection with its activities as a broker or dealer, it receives checks, drafts, or other evidences of indebtedness made payable to itself or persons other than the requisite registered broker or dealer carrying the account of a customer, escrow agent, issuer, underwriter, sponsor, or other distributor of securities. A broker or dealer shall be deemed to hold securities for, or to carry customer or broker or dealer accounts, and hold securities of, those persons if it does not promptly forward or promptly deliver all of the securities of customers or of other brokers or dealers received by the firm in connection with its activities as a broker or dealer. A broker or dealer, without complying with this paragraph (a)(2)(i), may receive securities only if its activities conform with the provisions of paragraphs (a)(2)(iv) or (v) of this section, and may receive funds only in connection with the activities described in paragraph (a)(2)(v) of this section.

/01 Introducing Brokers

Introducing brokers who do not meet the requirements outlined in interpretation 15c3-1 (a)(2)(iv)/01 shall be subject to the requirements of brokers that carry customer accounts.

(SEC Staff to NYSE) (No. 93-6, November 1993)

/02 Non-Carrying Brokers

A broker who clears and carries only accounts of "non-customers" is subject to the minimum net capital requirement under SEA Rule 15c3-1(a)(2)(i).

(SEC Staff to NYSE)

/03 Prime Broker Capital Requirements

A broker-dealer that acts as a prime broker must maintain net capital of not less than $1,500,000.

A broker-dealer acting as an executing broker in a prime broker relationship who self clears or a broker-dealer clearing prime broker transactions on behalf of an introducing executing broker must have minimum net capital of at least $1,000,000.

A broker-dealer must notify its DEA that it intends to act as a prime broker.

(SEC Letter to SIA, January 24, 1994) (No. 94-5, May 1994)

(a)(2) MINIMUM REQUIREMENTS (continued)

(ii) BROKERS OR DEALERS THAT CARRY CUSTOMER ACCOUNTS SUBJECT TO (k)(2)(i) EXEMPTION FROM 15c3-3

A broker or dealer that is exempt from the provisions of § 240.15c3-3 pursuant to section (k)(2)(i) thereof shall maintain net capital of not less than $100,000.

/01 Permitted to Elect Alternative Standard

Broker-dealers who are exempt from SEA Rule 15c3-3 pursuant to a (k)(2)(i) exemption may elect the alternative standard to determine their ratio requirements. See other requirements for alternative election under paragraph (a)(1)(ii).

(SEC Release No. 34-31511) (No. 93-6, November 1993)

(a)(2) MINIMUM REQUIREMENTS (continued)

(iii) DEALERS

A dealer shall maintain net capital of not less than $100,000. For the purposes of this section, the term "dealer" includes:

(A) any broker or dealer that endorses or writes options otherwise than on a registered national securities exchange or a facility of a registered national securities association; and

(B) any broker or dealer that effects more than ten transactions in any one calendar year for its own investment account. This section shall not apply to those persons engaging in activities described in paragraphs (a)(2)(v), (a)(2)(vi) or (a)(8) of this section, or to those persons whose underwriting activities are limited solely to acting as underwriters in best efforts or all or none underwritings in conformity with paragraph (b)(2) of § 240.15c2-4, so long as those persons engage in no other dealer activities.

/01 Commodities Transactions - Not Counted as Dealer Transactions

Commodities transactions made by an introducing broker-dealer shall not be counted as dealer transactions pursuant to SEA Rule 15c3-1(a)(2)(iii).

(SEC Staff to NYSE) (No. 90-11, December 1990)

/011 Dealers That Operate Pursuant to 15c3-1(a)(6)

A dealer that elects to operate under SEA Rule 15c3-1(a)(6) will be subject to the minimum net capital requirements of a dealer pursuant to SEA Rule 15c3-1(a)(2)(iii).

(SEC Staff to NYSE) (No. 95-3, May 1995)

/012 Dealer/Ten Proprietary Transactions, Buys and Sells are Individually Included

Buy and sell transactions are counted as individual transactions even if the buy and sell transactions are for the same security.

(SEC Staff of DMR to NASD, May 1993)
(NASD Notice to Members 93-30, May 1993)

(a)(2)(iii) MINIMUM REQUIREMENTS; DEALERS (continued)

/013 Dealer/Ten Proprietary Transactions, Money Market Fund Transactions are Excluded

Transactions in a money market fund registered as a fund under the Investment Company Act of 1940 and defined as a money market fund under Rule 2(a)7 of the Investment Company Act of 1940 are excluded from the ten-transaction limitation explained under "dealer" in SEA Rule 15c3-1(a)(2)(iii)(B).

(SEC Staff of DMR to NASD, May 1993)
(NASD Notice to Members 93-30, May 1993)

/014 Dealer/Ten Proprietary Transactions, Mutual Fund Transactions within the Same Family of Funds are Included

Transactions between mutual funds (excluding money market mutual funds) within the same family of funds count toward the ten-transaction limitation explained under "dealer" in SEA Rule 15c3-1(a)(2)(iii)(B).

(SEC Staff of DMR to NASD, May 1993)

/015 Dealer/Ten Proprietary Transactions, Single Monthly Investments of $1,000 or Less into a Mutual Fund are Excluded

A single monthly investment of $1,000 or less into an established mutual fund account for the firm would not be considered as a transaction for the purpose of the ten-transaction limitation explained under "dealer" in SEA Rule 15c3-1(a)(2)(iii)(B).

(NASD Notice to Members 93-46, July 1993)

/02 Sole Proprietor Joint Securities Account With Spouse

See interpretation 15c3-1(a)(2)(vi)(B)/04.

/03 Sole Proprietor IRA, Keogh or ERISA Accounts

See interpretation 15c3-1(a)(2)(vi)(B)/05.

(a)(2) MINIMUM REQUIREMENTS (continued)

(iv) BROKERS OR DEALERS THAT INTRODUCE CUSTOMER ACCOUNTS AND RECEIVE SECURITIES

A broker or dealer shall maintain net capital of not less than $50,000 if it introduces transactions and accounts of customers or other brokers or dealers to another registered broker or dealer that carries such accounts on a fully disclosed basis, and if the broker or dealer receives but does not hold customer or other broker or dealer securities. A broker or dealer operating under this paragraph (a)(2)(iv) of this section may participate in a firm commitment underwriting without being subject to the provisions of paragraph (a)(2)(iii) of this section, but may not enter into a commitment for the purchase of shares related to that underwriting.

/01 Requirements for Broker-Dealers Who Introduce Accounts on a Fully Disclosed Basis

Firms who introduce their accounts on a fully disclosed basis and wish to maintain their minimum Net Capital requirement pursuant to this paragraph (a)(2)(iv), must meet the following requirements:

1. The introducing firm must maintain a written clearing agreement (signed by the clearing broker-dealer) which states that for purposes of SIPA and SEA Rules 15c3-3, and 15c3-1, the customers are customers of the clearing firm and not the introducing firm;

2. The clearing firm must issue all account statements directly to customers;

3. Account statements must disclose the fact that all customer funds and/or securities are located at the clearing broker-dealer; and

4. Account statements must provide a contact person or department at the clearing firm who can address customer inquiries regarding their account(s).

If the introducing firm fails to meet any of the above requirements, it would be required to comply with the greater minimum net capital requirements of a broker-dealer that carries customer accounts.

The introducing firm should also maintain procedures to prevent their customers from transmitting funds (other than checks made out to appropriate third parties) to the firm (except by error). Procedures should address the actions the broker-dealer will take to advise its customers (in writing) should they send funds to the firm by error.

(SEC Release No. 34-31511) (No. 93-6, November 1993)

(a)(2)(iv) MINIMUM REQUIREMENTS; BROKERS OR DEALERS THAT INTRODUCE CUSTOMER ACCOUNTS AND RECEIVE SECURITIES (continued)

/02 Introducing Brokers - Receiving Funds

Any introducing broker that receives customer funds (checks made payable to itself and or cash), except by error, will be subject to the minimum net capital requirements of a broker-dealer that carries customer accounts (See SEA Rule 15c3-1(a)(2)(i).)

(SEC Release No. 34-31511, December 2, 1992) (No. 93-6, November 1993)

/03 Commission Recapture/Commission Rebate Program of Introducing Brokers

Any introducing broker who rebates a portion of its commission back to its customers either as a cash payment or to a creditor of the customer is required to maintain a minimum net capital requirement of at least $250,000. It is also considered a carrying firm for purposes of SEA Rule 15c3-3 unless it elects the following method for the handling of the customers' rebates:

The introducing broker deposits money into a separate 15c3-3 bank account similar to those accounts established under a SEA Rule 15c3-3(k)(2)(i) exemption and the balance in the bank account at all times must equal or exceed the payables to customers. The firm issues checks from this bank account to pay the customer or the creditor of the customer.

(SEC Staff to NYSE) (No. 02-3, February 2002)

(a)(2) MINIMUM REQUIREMENTS (continued)

(v) BROKERS OR DEALERS ENGAGED IN THE SALE OF REDEEMABLE SHARES OF REGISTERED INVESTMENT COMPANIES AND CERTAIN OTHER SHARE ACCOUNTS

A broker or dealer shall maintain net capital of not less than $25,000 if it acts as a broker or dealer with respect to the purchase, sale and redemption of redeemable shares of registered investment companies or of interests or participations in an insurance company separate account directly from or to the issuer on other than a subscription way basis. A broker or dealer operating under this section may sell securities for the account of a customer to obtain funds for the immediate reinvestment in redeemable securities of registered investment companies. A broker or dealer operating under this paragraph (a)(2)(v) must promptly transmit all funds and promptly deliver all securities received in connection with its activities as a broker or dealer, and may not otherwise hold funds or securities for, or owe money or securities to, customers.

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(a)(2) MINIMUM REQUIREMENTS (continued)

(vi) OTHER BROKERS OR DEALERS

A broker or dealer that does not receive, directly or indirectly, or hold funds or securities for, or owe funds or securities to, customers and does not carry accounts of, or for, customers and does not engage in any of the activities described in paragraphs (a)(2)(i) through (v) of this section shall maintain net capital of not less than $5,000. A broker or dealer operating under this paragraph may engage in the following dealer activities without being subject to the requirements of paragraph (a)(2)(iii) of this section:

(A) in the case of a buy order, prior to executing such customer's order, it purchases as principal the same number of shares or purchases shares to accumulate the number of shares necessary to complete the order, which shall be cleared through another registered broker or dealer or

(B) in the case of a sell order, prior to executing such customer's order, it sells as principal the same number of shares or a portion thereof, which shall be cleared through another registered broker or dealer.

/01 Riskless Principal Transactions

A broker who does riskless principal transactions in effectuating customer trades may be subject to a $5,000 minimum requirement, provided these transactions are made on a fully disclosed basis.

(SEC Staff to NYSE)

/02 Requirements for Broker-Dealers Who Introduce Accounts on a Fully Disclosed Basis and Do Not Receive Securities

To be subject to the minimum requirements of paragraph (a)(2)(vi), introducing brokers must meet the requirements outlined in interpretation 15c3-1(a)(2)(iv)/01.

Introducing brokers should also maintain procedures to prevent their customers from transmitting securities and/or funds (other than checks made out to appropriate third parties) to the firm (except by error). Procedures should address the actions the broker will take to advise the customer (in writing) should they send securities and/or funds to the firm by error.

(SEC Release No. 34-31511, December 2, 1992) (SEC Staff to NYSE)
(No. 93-6, November 1993)

(a)(2)(vi) MINIMUM REQUIREMENTS; OTHER BROKERS OR DEALERS (continued)

/021 Requirement to use a Qualified Escrow Agent

A broker-dealer operating pursuant to the $5,000 minimum net capital requirement of SEA Rule 15c3-1(a)(2)(vi) must comply with the provisions of SEA Rule 15c2-4(b)(2) when participating in a contingent best efforts underwriting or offering. This provision of the rule requires that customer funds in a contingent offering must be deposited in an escrow account with a qualified escrow agent, that has agreed in writing to hold such funds in escrow for the persons who have the beneficial interests therein and to transmit or return such funds directly to the persons entitled thereto, when the appropriate event or contingency has occurred. A qualified escrow agent must be a bank that is unaffiliated with either the issuer; general partner of the issuer; or the broker-dealer. A bank is defined in Section 3(a)(6) of the Securities Exchange Act and does not include a Savings and Loan Association or Credit Union. Failure to comply with the escrow requirements of SEA Rule 15c2-4(b)(2) subjects a $5,000 broker-dealer to a $250,000 minimum net capital requirement and nullifies its SEA Rule 15c3-3 exemption.

(SEC Staff of DMR to NASD Notice to Members 84-7)

/03 Introducing Brokers - Receiving Funds

Any introducing broker that receives customer funds (checks made payable to itself and or cash), except by error, will be subject to the minimum net capital requirements of a broker-dealer that carries customer accounts (SEA Rule 15c3-1(a)(2)(i)).

(SEC Release No. 34-31511, December 2, 1992) (No. 93-6, November 1993)

/031 Error Transactions of Floor Brokers – (Rescinded, No. 02-7, August 2002)

/032 Error Transactions of Floor Brokers

When a broker-dealer, which is primarily in the business of acting as a floor broker, makes an error in executing a transaction, which is done as a floor broker for another broker, no haircut need be taken on the resulting error position provided the security position is immediately liquidated upon discovery, but no later than the closing of the business day after the day the error occurred.

A broker-dealer is considered to be primarily in the business of acting as a floor broker when 75% of its gross revenue is derived from floor brokerage commissions.

This interpretation is applicable for a floor broker which either owns its seat or leases its seat.

(SEC Staff to NYSE) (No. 02-7, August 2002)

(a)(2)(vi) MINIMUM REQUIREMENTS; OTHER BROKERS OR DEALERS (continued)

/033 Introducing Broker-Dealers that Receive Only Customer Dividends or Capital Gains

An introducing broker-dealer that receives checks payable to itself, from a mutual fund, which result from dividends or capital gains in a customer's account, will have a net capital requirement of $250,000 pursuant to SEA Rule 15c3-1(a)(2)(i), regardless of whether the customer requested this arrangement.

(SEC Staff of DMR to NASD, May 1993)
(NASD Notice to Members 93-30, May 1993)

/04 Sole Proprietor Joint Securities Account With Spouse

A sole proprietor broker-dealer's joint securities account with a spouse should be reported on the Focus Balance Sheet. The transactions in this account should be counted in determining whether the broker-dealer effected more than ten (10) transactions in any one calendar year and subject to SEA Rule 15c3-1(a)(2)(iii). The account would also be subject to a PAIB Agreement if the assets are to be treated as allowable.

(SEC Staff to NYSE) (No. 01-3, March 2001)

(a)(2)(vi) MINIMUM REQUIREMENTS; OTHER BROKERS OR DEALERS (continued)

/05 Sole Proprietor IRA, Keogh or ERISA Accounts

Securities positions and money balances in IRA, Keogh or ERISA accounts of a sole proprietor broker-dealer do not need to be reported on the Focus Balance Sheet. The transactions in these accounts are also not counted in determining whether the broker-dealer effected more than ten (10) transactions in any one calendar year pursuant to SEA Rule 15c3-1(a)(2)(iii). These accounts would not be subject to a PAIB Agreement.

(SEC Staff to NYSE) (No. 01-3, March 2001)

/06 Certificates of Deposit Issued by Bank

In order to *not* be considered as carrying customer accounts for purposes of SEA Rule 15c3-1 and SEA Rule 15c3-3, a broker-dealer that acts as agent for both the purchaser and seller in effecting transactions in bank certificates of deposit must have these clients sign a written agreement that explicitly acknowledges the clients' understanding that the broker-dealer will have no obligation to the clients for the value of any bank certificates of deposit, any purchase price, or failure of any party with whom a transaction has been arranged to complete the transaction in accordance with its terms. The certificate of deposit must be issued by the bank in the name of the customer. If these conditions are met, this activity falls within the $5,000 minimum net capital requirement of SEA Rule 15c3-1(a)(2)(vi)

(SEC Staff of DMR to NASD, November 1993 and January 2004)

(3) [Removed and Reserved]

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(a) MINIMUM REQUIREMENTS (continued)

(4) CAPITAL REQUIREMENTS FOR MARKET MAKERS

A broker or dealer engaged in activities as a market maker as defined in paragraph (c)(8) of this section shall maintain net capital in an amount not less than $2,500 for each security in which it makes a market (unless a security in which it makes a market has a market value of $5 or less, in which event the amount of net capital shall be not less than $1,000 for each such security) based on the average number of such markets made by such broker or dealer during the 30 days immediately preceding the computation date. Under no circumstances shall it have net capital less than that required by the provisions of paragraph (a) of this section, or be required to maintain net capital of more than $1,000,000 unless required by paragraph (a) of this section.

/01 Debt Securities

Market makers' minimum capital requirements do not apply to bonds or other debt securities.

(SEC Staff to NYSE)

/02 Average Number of Markets

The average number of markets made by a broker-dealer during the 30 calendar days immediately preceding the computation date is determined as follows:

- Add the total number of markets made each day during the 30 calendar day period for securities with a representative ask price over $5 per share and divide the sum by the total number of business days in the same 30 calendar day period. Round quotient to the next highest number to determine the average number of markets made.

- The same procedure should be used when determining the average number of markets made in securities with a representative ask price of $5 or less.

(SEC Staff to NASD)

(a)(4) MINIMUM REQUIREMENTS; CAPITAL REQUIREMENTS FOR MARKET MAKERS (continued)

/03 Specialist Net Capital Requirements

The minimum net capital dollar amount requirement based on the number of securities in which the broker-dealer makes a market does not apply for securities in which the broker-dealer is registered as a specialist on a national securities exchange.

(SEC Staff to NYSE) (No. 76-4, April 1976)

/04 Warrant and Underlying Common Stock

When a broker-dealer makes a market in a warrant and the underlying common stock which trade as separate issues, they must be treated as separate securities in determining the appropriate amount of net capital required to be maintained under SEA Rule 15c3-1(a)(4).

A registration statement describing the issue as a unit consisting of common stock and warrants has no effect on this determination.

(SEC Letter to Corna and Co. Inc., Investment Securities, March 17, 1989)
(No. 89-9, July 1989)

(a) MINIMUM REQUIREMENTS (continued)

(5) OTC DERIVATIVES DEALERS

In accordance with Appendix F to this section (§ 240.15c3-1f), the Commission may grant an application by an OTC derivatives dealer when calculating net capital to use the market risk standards of Appendix F as to some or all of its positions in lieu of the provisions of paragraph (c)(2)(vi) of this section and the credit risk standards of Appendix F to its receivables (including counterparty net exposure) arising from transactions in eligible OTC derivative instruments in lieu of the requirements of paragraph (c)(2)(iv) of this section. An OTC derivatives dealer shall at all times maintain tentative net capital of not less than $100 million and net capital of not less than $20 million.

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(a) MINIMUM REQUIREMENTS (continued)

(6) MARKET MAKERS, SPECIALISTS AND CERTAIN OTHER DEALERS

(i) A dealer who meets the conditions of paragraph (a)(6)(ii) of this section may elect to operate under this paragraph (a)(6) and thereby not apply, except to the extent required by this paragraph (a)(6), the provisions of paragraphs (c)(2)(vi) or Appendix A, § 240.15c3-1a, of this section to market maker and specialist transactions and, in lieu thereof, apply thereto the provisions of paragraph (a)(6)(iii) of this section.

/01 Optional Financial Responsibility Standard

The optional standard can be used for any securities in which the broker-dealer makes a market; it is not restricted to specialist options or stocks.

The broker-dealer may elect to treat certain dealer securities under the optional standard, leaving other dealer securities subject to regular haircuts. For example, he might choose to clear his specialist options positions through another broker-dealer pursuant to SEA Rule 15c3-1(a)(6), yet clear his specialist stock positions himself. In this case the options positions are exempt from haircuts, while the stock positions are not.

(SEC Staff to NYSE) (No. 76-2, February 1976)

(a)(6) MINIMUM REQUIREMENTS; MARKET MAKERS, SPECIALISTS AND CERTAIN OTHER DEALERS (continued)

(ii) This paragraph (a)(6) shall be available to a dealer who does not effect transactions with other than brokers or dealers, who does not carry customer accounts, who does not effect transactions in unlisted options, and whose market maker or specialist transactions are effected through and carried in a market maker or specialist account cleared by another broker or dealer as provided in paragraph (a)(6)(iv) of this section.

/01 Introducing Options Specialist or Market Maker

An options specialist or market maker who introduces customers' accounts to another broker-dealer on a fully disclosed basis may elect to operate under SEA Rule 15c3-1(a)(6) in regard to its specialist or market maker activities provided that the conditions of subparagraph (a)(6)(ii) are met in every respect.

(SEC Letter to Invemed Associates Inc., April 10, 1979) (No. 79-10, December 1979)

/02 Commodity Futures Trading

An options specialist or market maker will not lose the election to meet capital requirements under SEA Rule 15c3-1(a)(6) solely through trading in commodity futures.

(ASE Information Circular No. 78-22, October 26, 1978) (No. 83-5, November 1983)

/03 Specialist's Personal Account – Non-Customer

When a specialist's personal account is carried by the same broker-dealer that carries the specialist account, this personal account must be treated as a non-customer account. (See interpretation 15c3-3(a)(1)/011.)

(SEC Staff to NYSE) (No. 87-6, May 1987)

(a)(6) MINIMUM REQUIREMENTS; MARKET MAKERS, SPECIALISTS AND CERTAIN OTHER DEALERS (continued)

(iii) A dealer who elects to operate pursuant to this paragraph (a)(6) shall at all times maintain a liquidating equity in respect of securities positions in his market maker or specialist account at least equal to:

(A) An amount equal to 25 percent (5 percent in the case of exempted securities) of the market value of the long positions and 30 percent of the market value of the short positions; provided, however, in the case of long or short positions in options and long or short positions in securities other than options which relate to a bona-fide hedged position as defined in paragraph (c)(2)(x)(C) of this section, such amount shall equal the deductions in respect of such positions specified by Appendix A (§ 240.15c3-1a).

(B) Such lesser requirement as may be approved by the Commission under specified terms and conditions upon written application of the dealer and carrying broker or dealer.

(C) For purposes of this paragraph (a)(6)(iii), equity in such specialist or market maker account shall be computed by (1) marking all securities positions long or short in the account to their respective current market values, (2) adding (deducting in the case of a debit balance) the credit balance carried in such specialist or market maker account, and (3) adding (deducting in the case of short positions) the market value of positions long in such account.

/01 Equity On Deposit With Carrying Broker

The equity on deposit with the carrying broker to meet the requirements specified in this subparagraph is not deducted from net worth in computing net capital. The requirements may be met by depositing in the account any cash or securities that may be used by the market maker or specialist, including all cash and securities contributed as subordinated liabilities or capital, whether pursuant to conforming agreements or not, as well as trading and investment account securities in which the computing broker-dealer is not a market maker or specialist.

(SEC Staff to NYSE) (No. 76-2, February 1976)

(a)(6) MINIMUM REQUIREMENTS; MARKET MAKERS, SPECIALISTS AND CERTAIN OTHER DEALERS (continued)

(iv) The dealer shall obtain from the broker or dealer carrying the market maker or specialist account a written undertaking which shall be designated "Notice Pursuant to Section 240.15c3-1(a)(6) of Intention to Carry Specialist or Market Maker Account." Said undertaking shall contain the representations required by this paragraph (a)(6) and shall be filed with the Commission's Washington, D.C. Office, the regional office of the Commission for the region in which the broker or dealer has its principal place of business and the Designated Examining Authorities of both firms prior to effecting any transactions in said account. The broker or dealer carrying such account:

(A) Shall mark the account to the market not less than daily and shall issue appropriate calls for additional equity which shall be met by noon of the following business day;

(B) Shall notify by telegraph the Commission and the Designated Examining Authorities pursuant to 17 CFR 240.17a-11, if the market maker or specialist fails to deposit any required equity within the time prescribed in paragraph (a)(6)(iv)(A) above; said telegraphic notice shall be received by the Commission and the Designated Examining Authorities not later than the close of business on the day said call is not met;

(C) Shall not extend further credit in the account if the equity in the account falls below that prescribed in paragraph (a)(6)(iii) above, and

(D) Shall take steps to liquidate promptly existing positions in the account in the event of a failure to meet a call for equity.

(a)(6) MINIMUM REQUIREMENTS; MARKET MAKERS, SPECIALISTS AND CERTAIN OTHER DEALERS (continued)

(v) No such carrying broker or dealer shall permit the sum of (A) the deductions required by paragraph (c)(2)(x)(A) of this section in respect of all transactions in market maker accounts guaranteed, endorsed or carried by such broker or dealer pursuant to paragraph (c)(2)(x) of this section and (B) the equity required by paragraph (iii) of this paragraph (a)(6) in respect of all transactions in the accounts of specialists or market makers in options carried by such broker or dealer pursuant to this paragraph (a)(6) to exceed 1000 percent of such broker's and dealer's net capital as defined in paragraph (c)(2) of this section for any period exceeding five business days; *provided*, That solely for purposes of this paragraph (a)(6)(v), deductions or equity required in a specialist or market maker account in respect of positions in fully paid securities (other than options), which do not underlie options listed on the national securities exchange or facility of a national securities association of which the specialist or market maker is a member, need not be recognized. *Provided further*, That if at any time such sum exceeds 1000 percent of such broker's or dealer's net capital, then the broker or dealer shall immediately transmit telegraphic notice of such event to the principal office of the Commission in Washington, D.C., the regional office of the Commission for the region in which the broker or dealer maintains its principal place of business, and such broker's or dealer's Designated Examining Authority. *Provided further*, That if at any time such sum exceeds 1000 percent of such broker's or dealer's net capital, then such broker or dealer shall be subject to the prohibitions against withdrawal of equity capital set forth in paragraph (e) of this section, and to the prohibitions against reduction, prepayment and repayment of subordination agreements set forth in paragraph (b)(11) of § 240.15c3-1d, as if such broker or dealer's net capital were below the minimum standards specified by each of the aforementioned paragraphs.

(a) MINIMUM REQUIREMENTS (continued)

(7) ALTERNATIVE NET CAPITAL COMPUTATION FOR BROKER-DEALERS THAT ELECT TO BE SUPERVISED ON A CONSOLIDATED BASIS

In accordance with Appendix E to this section (§ 240.15c3-1e), the Commission may approve, in whole or in part, an application or an amendment to an application by a broker or dealer to calculate net capital using the market risk standards of Appendix E to compute a deduction for market risk on some or all of its positions, instead of the provisions of paragraphs (c)(2)(vi) and (c)(2)(vii) of this section, and using the credit risk standards of Appendix E to compute a deduction for credit risk on certain credit exposures arising from transactions in derivatives instruments, instead of the provisions of paragraph (c)(2)(iv) of this section, subject to any conditions or limitations on the broker or dealer the Commission may require as necessary or appropriate in the public interest or for the protection of investors. A broker or dealer that has been approved to calculate its net capital under Appendix E must:

(i) At all times maintain tentative net capital of not less than $1 billion and net capital of not less than $500 million;

(ii) Provide notice that same day in accordance with §240.17a-11(g) if the broker's or dealer's tentative net capital is less than $5 billion. The Commission may, upon written application, lower the threshold at which notification is necessary under this paragraph (a)(7)(ii), either unconditionally or on specified terms and conditions, if a broker or dealer satisfies the Commission that notification at the $5 billion threshold is unnecessary because of, among other factors, the special nature of its business, its financial position, its internal risk management system, or its compliance history; and

(iii) Comply with § 240.15c3-4 as though it were an OTC derivatives dealer with respect to all of its business activities, except that paragraphs (c)(5)(xiii), (c)(5)(xiv), (d)(8), and (d)(9) of §240.15c3-4 shall not apply.

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(a) MINIMUM REQUIREMENTS (continued)

(8) MUNICIPAL SECURITIES BROKERS' BROKERS

(i) A municipal securities brokers' broker, as defined in subsection (ii) of this paragraph (a)(8), may elect not to be subject to the limitations of paragraphs (c)(2)(ix) of this section provided that such brokers' broker complies with the requirements set out in subsections (iii), (iv) and (v) of this paragraph (a)(8).

/01 SEC Approval Required

A broker that elects to operate under this paragraph may not switch back to the paragraph (a) method of computing net capital without SEC approval.

(SEC Letter to NASD, October 24, 1983) (No. 87-6, May 1987)

(a)(8) MINIMUM REQUIREMENTS; MUNICIPAL SECURITIES BROKERS' BROKERS (continued)

(ii) The term municipal securities "brokers' broker" shall mean a municipal securities broker or dealer who acts exclusively as an undisclosed agent in the purchase or sale of municipal securities for a registered broker or dealer or registered municipal securities dealer, who has no "customers" as defined in this rule and who does not have or maintain any municipal securities in its proprietary or other accounts.

/01 Acceptable Security Investments

Idle cash may be invested in short term investments in government securities falling within subparagraph (c)(2)(vi)(A)(1) Category 1 or securities qualifying under subparagraph (c)(2)(vi)(E)(1). No other proprietary positions are permitted.

Municipal securities are prohibited as SDN collateral.

(SEC Letter to NASD, October 24, 1983) (No. 87-6, May 1987)

(iii) In order to qualify to operate under this paragraph (a)(8), a brokers' broker shall at all times have and maintain net capital of not less than $150,000.

(iv) For purposes of this paragraph (a)(8), a brokers' broker shall deduct from net worth 1% of the contract value of each municipal failed to deliver contract which is outstanding 21 business days or longer. Such deduction shall be increased by any excess of the contract price of the fail to deliver over the market value of the underlying security.

/01 Fail to Deliver Extensions Prohibited

The extension provision contained in subparagraph (c)(2)(ix) is not available. Twenty one business days is deemed sufficient.

(SEC Letter to NASD, October 24, 1983) (No. 87-6, May 1987)

(a)(8) MINIMUM REQUIREMENTS; MUNICIPAL SECURITIES BROKERS' BROKERS (continued)

(v) For purposes of this paragraph (a)(8), a brokers' broker may exclude from its aggregate indebtedness computation indebtedness adequately collateralized by municipal securities outstanding for not more than one business day and offset by municipal securities failed to deliver of the same issue and quantity. In no event may a brokers' broker exclude any overnight bank loan attributable to the same municipal securities failed to deliver contract for more than one business day. A brokers' broker need not deduct from net worth the amount by which the market value of securities failed to receive outstanding longer than thirty (30) calendar days exceeds the contract value of those failed to receives as required by Rule 15c3-1(c)(2)(iv)(E).

/01 Corporate Bond Brokers' Broker

A corporate bond brokers' broker has been permitted to operate according to this paragraph (a)(8), with certain modifications.

(SEC Letter to Wolfe & Drizos Corporates, Inc., August 19, 1986)
(No. 87-6, May 1987)

(a) MINIMUM REQUIREMENTS (continued)

(9) CERTAIN ADDITIONAL CAPITAL REQUIREMENTS FOR BROKERS OR DEALERS ENGAGING IN REVERSE REPURCHASE AGREEMENTS

A broker or dealer shall maintain net capital in addition to the amounts required under paragraph (a) of this section in an amount equal to 10 percent of:

(i) The excess of the market value of United States Treasury Bills, Bonds and Notes subject to reverse repurchase agreements with any one party over 105 percent of the contract prices (including accrued interest) for reverse repurchase agreements with that party; and

(ii) The excess of the market value of securities issued or guaranteed as to principal or interest by an agency of the United States or mortgage related securities as defined in section 3(a)(41) of the Act subject to reverse repurchase agreements with any one party over 110 percent of the contract prices (including accrued interest) for reverse repurchase agreements with that party; and

(iii) The excess of the market value of other securities subject to reverse repurchase agreements with any one party over 120 percent of the contract prices (including accrued interest) for reverse repurchase agreements with that party.

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(b) EXEMPTIONS

(1) The provisions of this section shall not apply to any specialist:

(i) whose securities business, except for an occasional non-specialist related securities transaction for its own account, is limited to that of acting as an options market maker on a national securities exchange;

/01 Occasional Transactions

Excess funds may be invested in reverse repurchase agreement transactions as often as necessary, and not be counted as occasional investment transactions.

(SEC Staff to NYSE)

(ii) that is a member in good standing and subject to the capital requirements of a national securities exchange;

(iii) that does not transact a business in securities with other than a broker or dealer registered with the Commission under Section 15 or Section 15C of the Act or a member of a national securities exchange; and

(iv) that is not a clearing member of The Options Clearing Corporation and whose securities transactions are effected through and carried in an account cleared by another broker or dealer registered with the Commission under Section 15 of the Act.

(b)(1) EXEMPTIONS (continued)

/01 Non-Specialist Transactions

A specialist, market maker or a competitive options trader operating under this paragraph (b)(1) exemption may not engage in trading non-specialist securities. However, they may engage in hedging transactions if they are directly related to their market making or specialist activity. They may also make occasional investment account transactions in non-specialist securities (not more than 10 per year).

Excess funds may be invested in reverse repurchase agreement transactions as often as necessary, and not be counted as occasional

(SEC Staff to NYSE) (No. 90-11, December 1990)

/02 Servicing Family Accounts

A specialist member organization may not service the customer accounts of members of its partners' (or stockholders') families without losing its exemption from the rule.

(SEC Staff to NYSE)

/021 Servicing Partners Accounts

A specialist member organization may not service the individual accounts of its partners' or stockholders' without losing its exemption from the rule.

(SEC Staff to NYSE) (No. 89-6, June 1989)

/03 Specialist Trading in Futures

A broker who is exempt from SEA Rule 15c3-1 under this section will not lose the exemption solely through trading in commodity futures.

(ASE Circular No. 78-72, October 26, 1978)
(SEC Staff to NYSE) (No. 83-5, November 1983)

(NEXT PAGE IS 111)

(b) EXEMPTIONS (continued)

(2) A member in good standing of a national securities exchange who acts as a floor broker (and whose activities do not require compliance with other provisions of this rule) may elect to comply, in lieu of the other provisions of this section, with the following financial responsibility standard: the value of the exchange membership of the member (based on the lesser of the most recent sale price or current bid price for an exchange membership) is not less than $15,000, or an amount equal to the excess of $15,000 over the value of the exchange membership is held by an independent agent in escrow; provided that the rules of such exchange require that the proceeds from the sale of the exchange membership of the member and the amount held in escrow pursuant to this paragraph shall be subject to the prior claims of the exchange and its clearing corporation and those arising from the closing out of contracts entered into on the floor of such exchange.

/01 Floor Brokers Elective

Exchange floor brokers currently satisfying capital requirements under this section will not lose their elective solely through trading in commodity futures.

(ASE Circular No. 78-72, October 26, 1978)
(SEC Staff to NYSE) (No. 83-5, November 1983)

/011 Non-Exchange Member Transactions

An exempt floor broker who executes transactions for a broker-dealer who is not a member of the same exchange is subject to the minimum requirements of SEA Rule 15c3-1(a).

(SEC Staff to NYSE) (No. 93-6, November 1993)

/02 Availability of Exemption

The exemption is available even though the rules of a national securities exchange do not require that the proceeds from the sale be held in escrow and be subject to prior claims, provided that the escrow agreement provides for such treatment.

(SEC Staff to NYSE) (No. 87-6, May 1987)

(b)(2) EXEMPTIONS (continued)

/03 Floor Broker Error Transactions – Removed (No. 99-5, May 1999)

/031 Error Transactions of Floor Brokers – (Rescinded, No. 03-2, March 2003)

/032 Error Transactions of Floor Brokers

When a broker-dealer, which is primarily in the business of acting as a floor broker, makes an error in executing a transaction, which is done as a floor broker for another broker, no haircut need be taken on the resulting error position provided the security position is immediately liquidated upon discovery, but no later than the closing of the business day after the day the error occurred.

A broker-dealer is considered to be primarily in the business of acting as a floor broker when 75% of its gross revenue is derived from floor brokerage commissions.

This interpretation is applicable for a floor broker which either owns its seat or leases its seat.

(SEC Staff to NYSE) (No. 03-2, March 2003)

/04 Floor Brokers Activities

This elective is available to a floor broker that does not receive, directly or indirectly, or hold, securities for, or owe funds or securities to, customers and does not carry accounts of, or for, customers and does not engage in any of the activities described in paragraphs (a)(2)(i) through (v) of SEA Rule 15c3-1.

(SEC Staff to NYSE) (No. 93-6, November 1993)

(NEXT PAGE IS 121)

(b) EXEMPTIONS (continued)

(3) The Commission may, upon written application, exempt from the provisions of this section, either unconditionally or on specified terms and conditions, any broker or dealer who satisfies the Commission that, because of the special nature of its business, its financial position, and the safeguards it has established for the protection of customers' funds and securities, it is not necessary in the public interest or for the protection of investors to subject the particular broker or dealer to the provisions of this section.

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(c) DEFINITIONS

(1) AGGREGATE INDEBTEDNESS

The term “aggregate indebtedness” shall be deemed to mean the total money liabilities of a broker or dealer arising in connection with any transaction whatsoever, and includes, among other things, money borrowed, money payable against securities loaned and securities “failed to receive”, the market value of securities borrowed to the extent to which no equivalent value is paid or credited (other than the market value of margin securities borrowed from customers in accordance with the provisions of 17 CFR 240.15c3-3 and margin securities borrowed from non-customers), customers’ and non-customers’ free credit balances, credit balances in customers’ and non-customers’ accounts having short positions in securities, equities in customers’ and non-customers’ future commodities accounts and credit balances in customers’ and non-customers’ commodities accounts, but excluding:

/01 Guarantees in Aggregate Indebtedness

Guarantees are generally included.

(SEC Staff to NYSE)

/02 Subordinations - Accrued Interest

Accrued interest payable to subordinated lenders is excluded.

(SEC Staff to NYSE)

/03 Unsold Long Securities

The phrase "... and which have not been sold ..." in exclusions (i), (ii) and (iii) prevents a broker from excluding from aggregate indebtedness liabilities relating to securities sold to a customer on a COD basis which have not yet been delivered by a broker-dealer using settlement date accounting. This phrase should not be interpreted as referring to trade date sales.

(SEC Staff to NYSE)

(c)(1) DEFINITIONS; AGGREGATE INDEBTEDNESS (continued)

/031 Securities Pledged Against Securities Borrowed

Liabilities collateralized by; (1) securities borrowed from other broker-dealers obtained by pledging proprietary securities, or (2) securities pledged by other broker-dealers upon the lending of proprietary securities, need not be included in aggregate indebtedness.

(SEC Staff to NYSE) (No. 77-2, June 1977)

/04 Deferred Income

Some deferred income items are excluded from aggregate indebtedness. For example, unearned plan fees are excludable to the extent they will not have to be refunded.

(SEC Staff to NYSE)

/05 Letters of Credit

Letters of credit unsecured, or secured by proprietary securities and/or spot commodities, are excludable from aggregate indebtedness. Letters of credit secured by customers' securities and/or spot commodities are includable in aggregate indebtedness but only to the extent needed to satisfy margin or other obligations.

(SEC Staff to NYSE)

/06 Continuous Net Settlement (CNS) Balances

The net allocated "customer" balance in the continuous net settlement (CNS) account, if a credit, is included in aggregate indebtedness. The net allocated "customer" balance (debit or credit) is also included in the SEA Rule 15c3-3 Reserve Formula.

(SEC Staff to NYSE)

/07 Bank Overdrafts

Bank overdrafts and balances in drafts payable accounts representing checks or drafts drawn in excess of book balances may be reduced to the extent of debit balances in accounts representing cash balances carried by banks provided that:

- both the debit and the credit represent balances carried at the same bank, and
- the bank has the absolute right of offsetting the balance in one account against the balance in the other account.

(SEC Staff to NYSE) (No. 76-4, April 1976)

(c)(1) DEFINITIONS; AGGREGATE INDEBTEDNESS (continued)

/08 Drafts for Immediate Credit

The immediate credit proceeds advanced on drafts with securities attached deposited for collection are included in aggregate indebtedness unless they are collateralized by securities owned (and which have not been sold) by the broker-dealer or by securities collateralizing a secured demand note pursuant to Appendix D. (See interpretation 15c3-1(c)(1)/03.)

(SEC Staff to NYSE) (No. 76-4, April 1976)

/09 Intercompany Accounts with Subsidiaries

An unsubordinated amount payable to a subsidiary is Aggregate Indebtedness of the parent.

An unsubordinated amount payable to a parent is Aggregate Indebtedness of the subsidiary.

The above apply when there is no consolidation of assets and liabilities for Net Capital purposes as stipulated in Appendix C to SEA Rule 15c3-1.

(Also, see Certain Receivables under interpretation 15c3-1(c)(2)(iv)(C)/07.)

(SEC Staff to NYSE) (No. 79-4, March 1979)

/10 Unsecured Receivables and Payable With the Same Party

See other deductions under interpretation 15c3-1(c)(2)(iv)(E)/04.

(SEC Staff to NYSE) (No. 82-2, April 1982)

/11 Accrued Liability for Concessions or Commissions Payable

That portion of such accrued liabilities that are payable more than twelve months from the computation date may be excluded from aggregate indebtedness under the provisions specified at interpretation 15c3-1(c)(2)(iv)(C)/09.

(SEC Letter to NASD, July 24, 1984) (No. 87-6, May 1987)

(c)(1) DEFINITIONS; AGGREGATE INDEBTEDNESS (continued)

/12 Liability for Law Suit Damages, Penalties, etc.

Where long term liabilities, such as damages in a lawsuit, penalties, etc., are payable in installments or a lump sum over a long term, the full amount of the liability must be recorded and included as Aggregate Indebtedness.

In the event the liability is recorded on the books of account at present value under GAAP, the full amount of the liability (not the present value amount) must be included in Aggregate Indebtedness. (Also, see interpretation 15c3-1(c)(2)/012.)

(SEC Staff to NYSE) (No. 90-11, December 1990)

/13 Accrued "Soft Dollar" Research Liabilities

Section 28(e) of the Securities Exchange Act of 1934 provides a safe harbor to investment managers who use the commission dollars of their advised accounts to obtain investment research and brokerage services ("soft dollar" research) by permitting such persons, under certain circumstances, to "pay up" for such services received from broker-dealers.

Accrued liabilities under "soft dollar" arrangements resulting from the receipt of commission revenues from customers before the third party research is provided is includable in Aggregate Indebtedness. The accrued liabilities are to be accounted for on a customer-by-customer basis and may not be netted with deferred research expenses unless both are with the same customer. These liabilities may not be added back to net worth for Net Capital computation purposes.

Accruals for "soft dollar" research liabilities are to be determined in accordance with generally accepted accounting principles including the proper matching of revenues and expenses during each accounting period. The possibility of inflated revenues, accelerated expenses recognition and the propriety of accruals associated with "soft dollar" arrangements should be of particular concern. (See interpretation 15c3-1(c)(2)(iv)(E)/15.)

Appropriate accounting records which show the research obligations and expenses should be maintained for each customer having a "soft dollar" research arrangement covered by this interpretation.

(SEC Staff to NYSE) (No. 91-13, August 1991)

(c)(1) DEFINITIONS; AGGREGATE INDEBTEDNESS (continued)

/14 Adverse Award in an Arbitration Proceeding

A broker-dealer that is the subject of an adverse award in an arbitration proceeding should book said award as an actual liability at the time the award is made, even though the appeal process has not been exhausted and no judgment has been rendered, because grounds for revision on appeal are very limited. In addition, the award would be included in Aggregate Indebtedness as there is no exclusion available under SEA Rule 15c3-1(c)(1).

(SEC Staff of DMR to NASD, September 1988)

/15 Commission, Registration, or Wrap Fee Refund

A broker-dealer that offers customers fee-related services, and that permits a partial refund of fees if the customer terminates the arrangement before the entire fee is earned, must reflect the unused portion of the fee subject to a refund as a liability and a component of aggregate indebtedness.

(SEC Staff of DMR to NASD, June 16, 1993)

/16 Court Judgment Rendered against a Broker-Dealer

A court judgment adverse to a broker-dealer is, at a minimum, a contingent liability of the firm and included in the calculation of aggregate indebtedness unless an opinion of counsel indicates otherwise. If the broker-dealer has exhausted its remedies, the liability must be booked. Each situation must be analyzed on the particular facts present in the matter.

(Letter from SEC Staff of DMR to NASD, February 8, 1978)

/17 Deposit in a Special Agency or Trust Account

Funds related to a best efforts underwriting that are on deposit in a special trust or agency account must be included in the calculation of aggregate indebtedness under SEA Rule 15c3-1(c)(1).

(SEC Staff of DMR to NASD, September 1983)

(c)(1) DEFINITIONS; AGGREGATE INDEBTEDNESS (continued)

/18 Distributor or Underwriter of Mutual Funds and Other Investment Companies Includes Payables in Aggregate Indebtedness

A broker-dealer that is an underwriter of investment company shares may not net amounts payable to the investment company against related receivables from other broker-dealers that had purchased shares of the investment company. Such a broker-dealer must include the amounts it owes to the investment company in its aggregate indebtedness under SEA Rule 15c3-1(c)(1). A distributor of mutual fund shares is covered by this interpretation.

(Letters from SEC Staff of DMR to NASD, May 1, 1979 and July 16, 1981)
(Letter from SEC Staff of DMR to F. Eberstadt & Co., May 21, 1979)

/19 Good Faith Deposits Placed with the Managing Underwriter

Good faith deposits, placed with the managing underwriter by joint account participants in connection with municipal underwritings, represent payables of the managing underwriter to the joint account members and are included in the managing underwriter's calculation of aggregate indebtedness under SEA Rule 15c3-1(c)(1).

(Letter from SEC Staff of DMR to Seasongood & Mayer, June 7, 1977)

/20 Temporary Capital Infusions in a Broker-dealer – Rescinded (FINRA Regulatory Notice 14-06)

/21 One-Day Bank Loan for DVP Transactions

A broker-dealer uses a local bank as agent for delivery of securities and collection of payment for out-of-town delivery versus payment (DVP) transactions. At the same time, the firm obtains a loan from the same bank collateralized by the securities to be delivered. The loan remains outstanding for one additional day after the DVP transaction has been completed. Said loan must be classified as aggregate indebtedness pursuant to SEA Rule 15c3-1(c)(1) until the funds are actually received by the bank and the loan is eliminated.

(SEC Staff of DMR to NASD, December 1982)

(c)(1) DEFINITIONS; AGGREGATE INDEBTEDNESS (continued)

/22 Partner's Securities that are used to Collateralize Firm Loans

If securities owned by a general partner are left with the broker-dealer to use in the ordinary course of its business and such securities are used to collateralize firm loans, such indebtedness is included in the broker-dealer's calculation of aggregate indebtedness as required by SEA Rule 15c3-1(c)(1), absent a related approved secured demand note or a capital contribution of said securities pursuant to the partnership agreement.

(Letter from SEC Staff of DMR to Stone and Youngberg Investment Securities, January 6, 1978)

/23 Partnership "Capital" that was Contributed by Non-Partners

In a partnership, persons other than partners may contribute capital to a broker-dealer only by means of an approved subordination agreement or secured demand note. Any other contributions by such persons are loans made to the partnership and constitute liabilities of the broker-dealer. These liabilities must be included in the calculation of aggregate indebtedness under SEA Rule 15c3-1(c)(1).

(SEC Staff of DMR to NASD, September 1988)

/24 Deferred Prepaid Investment Advisory Fees

Deferred prepaid investment advisory fees, that have not yet been earned, must be included in the broker-dealer's aggregate indebtedness pursuant to SEA Rule 15c3-1.

(Letter from SEC Staff of DMR to A.R. Schmeidler & Co., Inc., December 4, 1976)

/25 Rent Payments that are Not Required during Part of Lease Term (Free Rent)

The following sets forth the appropriate treatment of free rent. By way of illustration, assume that a broker-dealer enters into an office lease agreement for a five-year term with an annual rent of $12,000. The lease contains a provision that there is no payment of rent required for the first year of the lease; that is, free rent for one year.

The total rent payment over the life of the lease ($48,000) should be divided by the total number of months in the lease period (60 months). The result will be an $800 per month prorated rent expense that should be recorded monthly on the firm's books and records, even though actual rent payments under the lease do not begin until the second year.

(SEC Staff of DMR to NASD, June 1985)

(c)(1) DEFINITIONS; AGGREGATE INDEBTEDNESS (continued)

/26 Fines and Other Monetary Penalties Assessed by a Governmental Agency or Self-Regulatory Organization

A fine, an order to pay restitution or similar penalty imposed by a governmental agency or self-regulatory organization ("fine"), at a minimum, shall be treated as a contingent liability of the broker-dealer and included in the computation of aggregate indebtedness at the time such fine is imposed.

In addition, under Generally Accepted Accounting Principles (GAAP), broker-dealers have an ongoing obligation to assess the specific facts applicable to each pending or decided matter that may result or has resulted in the imposition of a fine and to make a determination as to whether an actual liability must be recorded in the financial statements.

In any event, once all available appeals or other remedies have been exhausted, the broker-dealer must record the full amount of the fine as a liability in its financial statements.

Note: This interpretation does not apply to adverse awards resulting from arbitration proceedings or adverse court judgments. See interpretations 15c3-1(c)(1)/14 (Adverse Award in an Arbitration Proceeding) and 15c3-1(c)(1)/16 (Court Judgment Rendered Against a Broker-Dealer) for the applicable Net Capital treatment in such instances.

(SEC Staff to FINRA) (FINRA Regulatory Notice 13-44)

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(c)(1) DEFINITIONS; EXCLUSIONS FROM AGGREGATE INDEBTEDNESS

(i) Indebtedness adequately collateralized by securities which are carried long by the broker or dealer and which have not been sold or by securities which collateralize a secured demand note pursuant to Appendix (D) to this section, 17 CFR 240.15c3-1d; indebtedness adequately collateralized by spot commodities which are carried long by the broker or dealer and which have not been sold; or, until October 1, 1976, indebtedness adequately collateralized by municipal securities outstanding for not more than one business day and offset by municipal securities failed to deliver of the same issue and quantity, where such indebtedness is incurred by a broker or dealer effecting transactions solely in municipal securities who is either registered with the Commission or temporarily exempt from such registration pursuant to 17 CFR 240.15a-1(T) or 17 CFR 240.15Ba2-3(T);

/01 Commingled and Inadequately Secured Loans

Commingled bank loans and inadequately secured firm bank loans are treated as follows:

- If a bank loan which has been arranged as a customer loan contains securities other than customers' securities, the entire bank loan should be treated as aggregate indebtedness.

- If the bank loan contains any non-exempted securities (until June 1, 1976, other than municipals), the 4% option set forth in subparagraph (c)(2)(xiii) is not available.

- If a bank loan which has been arranged as a firm loan contains non-firm (customers' and/or "non-customers'") securities, the amount of the bank loan should be prorated based upon the loan value of the collateral and the prorated amounts treated in accordance with the pertinent provisions of SEA Rule 15c3-1, as either:

  a) excluded from aggregate indebtedness;

  b) included in aggregate indebtedness; or

  c) if appropriate, as eligible for the 4% option set forth in subparagraph (c)(2)(xiii).

The following formula is used for pro-ration:

$$\text{Amount includable in aggregate indebtedness (or eligible for 4\% option)} = \text{Amount borrowed} \times \frac{\text{loan value of non-firm collateral}}{\text{loan value of all collateral}}$$

(c)(1)(i) DEFINITIONS; EXCLUSIONS FROM AGGREGATE INDEBTEDNESS (continued)

/01 Commingled and Inadequately Secured Loans (continued)

For example, assume that the amount borrowed is $1,000,000; that firm collateral market value is $2,000,000; that non-firm collateral market value is $1,000,000; and that the broker can borrow 50% on firm collateral and 80% on non-firm collateral.

$$\text{Amount includable in aggregate indebtedness} = \frac{\$1{,}000{,}000 \times 80\% \text{ of } \$1{,}000{,}000}{80\% \text{ of } \$1{,}000{,}000 + 50\% \text{ of } \$2{,}000{,}000}$$

$$= \$444{,}444$$

If a bank loan which has been arranged as a firm loan contains firm securities only but is not "adequately secured", the amount of the bank loan should be prorated between adequately secured and unsecured based upon the loan value of the collateral and the prorated amounts treated in accordance with the pertinent provisions of SEA Rule 15c3-1, as either excluded from, or included in, aggregate indebtedness.

Notes: The terms "non-customer" and "adequately secured" are defined in the rule.

Securities that are the subject of satisfactory subordination agreements are considered firm securities for purposes of these interpretations.

(SEC Staff to NYSE)

(c)(1) DEFINITIONS; EXCLUSIONS FROM AGGREGATE INDEBTEDNESS (continued)

(ii) Amounts payable against securities loaned, which securities are carried long by the broker or dealer and which have not been sold or which securities collateralize a secured demand note pursuant to Appendix (D), 17 CFR 240.15c3-1d;

/01 Continuous Net Settlement (CNS) Balances Allocation

Securities loaned allocating to long CNS positions (securities of the same issue and quantity) are excluded from aggregate indebtedness.

(SEC Staff to NYSE) (No. 06-5, June 2006)

(iii) Amounts payable against securities failed to receive which securities are carried long by the broker or dealer and which have not been sold or which securities collateralize a secured demand note pursuant to Appendix (D), 17 CFR 240.15c3-1d or amounts payable against securities failed to receive for which the broker or dealer also has a receivable related to securities of the same issue and quantity thereof which are either fails to deliver or securities borrowed by the broker or dealer;

/01 Continuous Net Settlement (CNS) Balances Allocation

Fails to receive allocated to long CNS positions (securities of the same issue and quantity) are excluded from aggregate indebtedness. (See interpretation 15c3-1(c)(1)/06.)

(SEC Staff to NYSE) (No. 79-4, March 1979)

/02 Institutional Short Positions

Credit balances in the account of an institutional customer which results from the non-delivery of securities sold by the institution by settlement date:

Shall not be excluded from Aggregate indebtedness as if it were Fail to Receive.

The use of the “fail to receive” concept should be limited to transactions between brokers and dealers.

(SEC Letter to M. A. Schapiro & Co., Inc., June 7, 1983)
(No. 87-6, May 1987)

(iv) Credit balances in accounts representing amounts payable for securities or money market instruments not yet received from the issuer or its agent which securities are specified in subdivision (c)(2)(vi)(E) and which amounts are outstanding in such account not more than three (3) business days;

(c)(1) DEFINITIONS; EXCLUSIONS FROM AGGREGATE INDEBTEDNESS (continued)

(v) Equities in customers' and non-customers' accounts segregated in accordance with the provisions of the Commodity Exchange Act and the rules and regulations thereunder;

(vi) Liability reserves established and maintained for refunds of charges required by Section 27(d) of the Investment Company Act of 1940, but only to the extent of amounts on deposit in a segregated trust account in accordance with 17 CFR 270.27d-1 under the Investment Company Act of 1940;

(vii) Amounts payable to the extent funds and qualified securities are required to be on deposit and are deposited in a "Special Reserve Bank Account for the Exclusive Benefit of Customers" pursuant to 17 CFR 240.15c3-3 under the Securities Exchange Act of 1934;

/01 Funds on Deposit in a "Special Bank Account For The Exclusive Benefit Of Customers"

Broker-dealers that use a "Special Account for the Exclusive Benefit of Customers" pursuant to SEA Rule 15c3-3(k)(2)(i) can not exclude the amounts payable to customers pursuant to SEA Rule 15c3-1(c)(1)(vii). Amounts payable to customers, to the extent funds are on deposit in a "Special Account for the Exclusive Benefit of Customers", must be included in the calculation of aggregate indebtedness.

(Letter from SEC of DMR to MSE, June 2, 1977)

/02 Reserve Bank Account Deposit/Requirement

Pursuant to SEA Rule 15c3-1(c)(1)(vii), a broker/dealer may exclude from aggregate indebtedness customer-related liabilities to the extent funds are on deposit and required to be on deposit in a Special Reserve Bank Account for the Exclusive Benefit of Customers established pursuant to SEA Rule 15c3-3(e). At its option, prior to the next required reserve deposit timeframe, a firm may exclude the amount that was required to be and was on deposit as of the previous reserve formula calculation date from the current calculation of aggregate indebtedness, even if the current reserve formula calculation has a lower requirement. Should the current reserve formula calculation have a higher deposit requirement than the previous reserve formula calculation, the firm may elect to use the current reserve formula calculation amount to reduce aggregate indebtedness, provided the necessary funds were on deposit in the Special Reserve Bank Account for the Exclusive Benefit of Customers *as of that date*.

(SEC Staff of DMR to NASD, June 1980)

(c)(1) DEFINITIONS; EXCLUSIONS FROM AGGREGATE INDEBTEDNESS (continued)

(viii) Fixed liabilities adequately secured by assets acquired for use in the ordinary course of the trade or business of a broker or dealer but no other fixed liabilities secured by assets of the broker or dealer shall be so excluded unless the sole recourse of the creditor for nonpayment of such liability is to such asset;

/01 Assets Acquired in the Ordinary Course of Business

"Assets acquired for use in the ordinary course of the trade or business of a broker or dealer" are those which generally are necessary for the conduct of a brokerage business. This is determined on a case-by-case basis. An office building acquired for the purpose of rental income would not qualify. A truck primarily used to make deliveries of securities would qualify.

(SEC Staff to NYSE)

/011 Automobiles Do Not Qualify

Fixed liabilities secured by automobiles cannot be excluded from A. I. as the automobiles are not necessary for the conduct of a brokerage business.

(SEC Letter to Investors Diversified Services, Inc., January 18, 1983)
(No. 87-6, May 1987)

(c)(1)(viii) DEFINITIONS; EXCLUSIONS FROM AGGREGATE INDEBTEDNESS (continued)

/012 Demonstrated Collateral Value

To receive favorable treatment, the broker-dealer must demonstrate to its designated examining authority that the asset adequately secures the indebtedness within the meaning of subparagraph (c)(5) of SEA Rule 15c3-1.

(SEC Letter to NASD, April 17, 1986) (No. 87-6, May 1987)

/013 Partially Collateralized Loan

A partially collateralized loan may receive favorable treatment up to the amount that the loan is adequately collateralized.

(SEC Staff to NYSE) (No. 87-6, May 1987)

/02 Capitalized Leases

When the lease of computer or telephone equipment from a vendor-lessor or bank or other financial institution is capitalized, 50% of the capitalized lease liability may be treated as adequately secured for a period of two years after the lease was entered into without demonstration of the adequacy of the collateral.

(SEC Letter to NASD, April 17, 1986) (No. 87-6, May 1987)

/021 Capitalized Leases - Sole Recourse

To be treated as adequately secured for more than 50% of the liability, sole recourse must be to the asset pledged or the broker-dealer must demonstrate that the asset adequately secures the liability.

(SEC Staff to NYSE) (No. 87-6, May 1987)

/03 Fixed Liabilities - Remaining Maturity of One Year or More

The term "fixed liabilities" includes only those liabilities with remaining maturity of one year or more. The portion of such liability which matures in less than one year is considered current and may not be excluded from aggregate indebtedness whether or not sole recourse of the creditor for nonpayment of such liability is to assets securing the liability.

(SEC Staff to NYSE) (No. 91-6, July 1991)

(c)(1) DEFINITIONS; EXCLUSIONS FROM AGGREGATE INDEBTEDNESS (continued)

(ix) Liabilities on open contractual commitments;

(x) Indebtedness subordinated to the claims of creditors pursuant to a satisfactory subordination agreement, as defined in Appendix (D), 17 CFR 240.15c3-1d;

/01 Cash SDN Collateral

Money deposited as collateral for a secured demand note is not included in aggregate indebtedness except to the extent that it exceeds the principal amount of the note.

(SEC Staff to NYSE) (No. 76-4, April 1976)

/02 Payment Prohibited on a Subordination, which Continues to be Capital and Excluded from Aggregate Indebtedness

Subordinated agreements that have reached their stated or accelerated maturity date and for which payment is prohibited pursuant to subparagraph (b)(8) of Appendix D of SEA Rule 15c3-1 shall continue to be excluded from aggregate indebtedness. Such subordinated agreements are treated as capital until the broker-dealer is able to repay the loan.

(SEC Staff of DMR to NASD, September 1975)
(Letter from SEC Staff of DMR to Philadelphia Stock Exchange, July 11, 1977)

(c)(1) DEFINITIONS; EXCLUSIONS FROM AGGREGATE INDEBTEDNESS (continued)

(xi) Liabilities which are effectively subordinated to the claims of creditors (but which are not subject to a satisfactory subordination agreement as defined in Appendix (D) 17 CFR 240.15c3-1d), by non-customers of the broker or dealer prior to such subordination, except such subordinations by customers as may be approved by the Examining Authority for such broker or dealer;

(xii) Credit balances in accounts of general partners;

(xiii) Deferred tax liabilities;

/01 Deferred Tax Exclusion

All deferred tax liabilities are excluded from aggregate indebtedness, including those that might be added back to net worth as described in SEA Rule 15c3-1(c)(2)(i)(C).

(SEC Staff to NYSE)

(xiv) Eighty-five percent of amounts payable to a registered investment company related to fail to deliver receivables of the same quantity arising out of purchases of shares of those registered investment companies; and

(xv) Eighty-five percent of amounts payable against securities loaned for which the broker or dealer has receivables related to securities of the same class and issue and quantity that are securities borrowed by the broker or dealer.

(NEXT PAGE IS 201)

(c) DEFINITIONS

(2) NET CAPITAL

The term "net capital" shall be deemed to mean the net worth of a broker or dealer, adjusted by:

/01 Generally Accepted Accounting Principles (GAAP)

Net worth is to be computed in accordance with generally accepted accounting principles.

Some exceptions to this are:

- Unlisted options are carried at their intrinsic values (or "in the money" amounts) - under GAAP they are carried at the unamortized premium amounts.

- Leases on unoccupied premises such as closed branch offices continue to be accounted for as leases until their expiration dates - under GAAP the discounted present value of the lease payments is generally accounted for as a money liability.

(SEC Staff to NYSE) (No. 76-4, April 1976)

- Flow through capital from affiliated entities pursuant to SEA Rule 15c3-1c is required to be reported on a one line basis for unaudited FOCUS Reports - under GAAP flow through capital from affiliated entities is generally reported on a line-by-line basis.

(SEC Staff to NYSE) (No. 02-7, August 2002)

Broker-dealers that use the trade date basis of record keeping are in compliance with the AICPA Guide for Audits of Brokers and Dealers in Securities while broker-dealers that use the settlement date basis of recordkeeping are in compliance with the Guide only if the difference between trade date and settlement date accounting is not material.

A broker-dealer must have a consistent policy of reflecting all transactions either on a trade date or a settlement date basis and must compute its net capital on the same basis as it uses in recording its transactions. However, if settlement date accounting is used, and

- there is a "material difference" between trade date accounting, the net capital computation must reflect the trade date position for proprietary positions, and

- if there is a material difference on more than an occasional basis (i.e., twice in a six month period), trade date accounting should probably be used on a consistent basis.

(c)(2) DEFINITIONS; NET CAPITAL (continued)

/01 Generally Accepted Accounting Principles (GAAP) (continued)

The broker-dealer must continue to use the method chosen unless it advises its designated examining authority of a change in method or a change is required because of a "material difference".

The securities record required by SEA Rule 17a-3(a)(5) and the formula computation set forth in SEA Rule 15c3-3a must be maintained and computed, respectively, on a settlement date basis.

Any net receivables or payables resulting from the recording of proprietary positions on a trade date basis are not deducted from net worth nor included in aggregate indebtedness.

(SEC Letter to A.I.C.P.A., April 23, 1986) (No. 86-10, December 1986)

/011 Guarantees and Contingencies

Losses which could result from guarantees or contingencies should be accrued and deducted in computing net worth when occurrence of a loss is probable and the amount can be reasonably estimated.

(SEC Staff to NYSE) (No. 81-9, February 1981)

/0110 Lawsuits as Contingent Liabilities

A broker-dealer that is the subject of a lawsuit that could have a material impact on its net capital must obtain an opinion of outside counsel regarding the potential effect of such a suit on the firm's financial condition. Absent such opinion, the item must be considered, at a minimum, a contingent liability, and be included in the calculation of aggregate indebtedness that is required by SEA Rule 15c3-1(c)(1).

(SEC Staff of DMR to NASD, September 1988)

/012 Liabilities Recorded on a Present Value Basis

Broker-dealers may, in some instances, record long term liabilities on the books of account on a present value basis. In that event the full amount of the liability, and not the present value amount, must be treated as a liability in the net worth computation and the full amount must be deducted in the net capital computation. (Also, see interpretation 15c3-1(c)(1)/12.)

(SEC Staff to NYSE) (No. 90-11, December 1990)

(c)(2) DEFINITIONS; NET CAPITAL (continued)

/013 Accrual Method of Accounting

All registered broker-dealers are required to use the accrual method of accounting in order to ensure a proper matching of revenues and expenses and to provide an accurate reflection of a broker-dealer's financial condition.

(SEC Release No. 34-18737, May 13, 1982) (No. 93-6, November 1993)

/014 Reporting Customers' Balances on FOCUS Report

The reporting of customers' balances on a trade date basis only on the FOCUS Balance Sheet is acceptable provided this does not conflict with Generally Accepted Accounting Practices (GAAP). Customers' balances must still be reported on a settlement date basis in preparing the Reserve Formula.

(SEC Staff to NYSE) (No. 99-5, May 1999)

/015 Broker-Dealer As Qualified Lender

When a broker-dealer is a Qualified Lender for a revolving subordinated loan agreement (See interpretation 15c3-1d(a)(2)(v)(F)/01) the following applies:

- it takes a charge to net capital for the full amount of the loan commitment whether or not drawn down by the borrower, from the effective date of the revolving subordinated loan agreement through the maturity date of the loans thereunder; and

- at the time it enters into the revolving subordinated loan agreement, after taking the charge to net capital set forth above, its aggregate indebtedness does not exceed 1000% of its net capital nor is its net capital less than 120% of the minimum dollar amount required by SEA Rule 15c3-1 or, in the case of a broker-dealer operating pursuant to paragraph (a)(1)(ii) of SEA Rule 15c3-1, its net capital would not be less than 5 percent of its aggregate debit items computed in accordance with SEA Rule 15c3-3a, or if registered as a futures commission merchant, its net capital would not be less than 7 percent of the funds required to be segregated pursuant to the Commodity Exchange Act and the regulations thereunder, if greater.

- The charge to net capital for the portion of the loan commitment that is not drawn down by the borrower should be deducted by the Qualified Lender on the FOCUS Computation of Net Capital, line item number 3610.

(SEC Staff to NYSE) (No. 01-4, April 2001)

(c)(2) DEFINITIONS; NET CAPITAL (continued)

/016 Federal Tax Claim on a Broker-Dealer

The Internal Revenue Service has the power to attach assets of the appellant to insure payment of the disputed tax in certain situations. A stay of tax payment is not automatic in the Tax Court forum; rather, the appellant must post a bond equal to the amount of the claim and subsequently file an appeal. Consequently, although all legal remedies have not been exhausted, for purposes of computing net capital under SEA Rule 15c3-1(c)(2), the tax claim should usually be booked as an actual liability at the time the administrative procedures are exhausted with the IRS.

(SEC Staff of DMR to NASD, September 1992)

/02 Discretionary Liabilities

In determining net capital, accrued amounts that are payable solely at the discretion of the broker-dealer for bonuses, profit-sharing, etc., may be added back to net worth net of any related tax benefit. Such amounts must still be reported as proposed or scheduled capital withdrawals on reports pursuant to SEA Rule 17a-5, and while excludable from Aggregate Indebtedness are still considered as liabilities for purposes of paragraphs (d) and (e) and Appendix D. (See interpretation 15c3-1(c)(2)/07 for treatment of Employee Stock Ownership Plans.)

(SEC Letter to Becker Securities Corporation, April 14, 1976)
(SEC Staff to NYSE) (No. 79-4, March 1979)

/03 Partners' Securities Capital

Securities may be contributed by partners as capital with any related income or loss accruing to the partner individually. Generally accepted accounting principles prescribe that ordinarily such securities be valued at market prices and included in net worth. However, since for the purpose of this rule such securities are not to be given any value in computing net capital and the debt-equity total, they are treated by interpretation as not being included in net worth.

A partner may contribute securities as capital and have them included in net worth for net capital purposes, provided the securities are then owned by the firm for all purposes (i.e., the firm has all of the incidents of ownership), are thus recorded in the firm trading and investment accounts and are subject to appropriate haircuts. Of course partners wishing to make contributions without giving up the incidences of ownership may still do so through the use of a "secured demand note" as provided under Appendix D.

(SEC Staff to NYSE)

(c)(2) DEFINITIONS; NET CAPITAL (continued)

/031 Ownership of Proprietary Securities

Securities in the proprietary account of a broker-dealer that were contributed to capital must be owned by the firm (that is, the firm has all of the incidents of ownership) and therefore must be held in bearer, nominee, or firm name in order to have value for net capital purposes. An individual may not serve as a nominee.

(Letter from SEC Staff of DMR to NASD, June 28, 1978)
(SEC Staff of DMR to NASD, July 1978)

/04 Forward Commodity Contracts

In determining net worth, net positions in forward commodity contracts may be valued at the price quoted on a recognized commodity exchange for the future contract month closest to the forward delivery date or by interpolation, provided that the terms of the contract are comparable to the contract traded on the commodity exchange.

(SEC Staff to NYSE)

/05 Deferred Taxes in Accordance with GAAP

Unincorporated entities, as well as corporations, that are subject to taxes on income must accrue deferred taxes in accordance with GAAP.

(SEC Staff to NYSE) (No. 76-4, April l976)

/06 Options

See SEA Rule 15c3-1a (Appendix A).

(c)(2) DEFINITIONS; NET CAPITAL (continued)

/07 Employee Stock Ownership Plans (ESOPS)

So long as a broker-dealer does not have reason to believe that an ESOP will be disapproved by the Internal Revenue Service, an ESOP that has been adopted subject to such approval may be treated for net capital purposes as if the approval had been received. However, FOCUS reports and net capital computations should be footnoted to indicate that such approval is pending. Any changes to the plan in order to secure approval should also be taken into consideration.

To the extent that contributions to an ESOP are at the broker-dealer's discretion, provisions for anticipated contributions should be treated as described in interpretation 15c3-1(c)(2)/02. However, if the investing activities of the ESOP are restricted to buying stock directly from the broker-dealer (as opposed to its existing shareholders) the amounts accrued need not be considered as scheduled capital withdrawals for FOCUS report purposes.

Contributions that have been declared as payable by the broker-dealer to the ESOP are liabilities that generally are includable in aggregate indebtedness. If the activities of the ESOP are limited to purchasing the broker-dealer's stock directly from the broker-dealer, the liability of the broker-dealer to the ESOP is not included in aggregate indebtedness.

Leveraged ESOP's should be treated as follows:

- An obligation of an ESOP should be recorded in the employer's financial statements as a liability when the obligation is covered by the employer's guarantee or his commitment to make future contributions to the ESOP sufficient to meet the debt service requirements.

- The offsetting debit to the liability should be shown as a reduction of shareholders' equity.

- The debit should be reduced and the offset to shareholders' equity should be restored only as the ESOP makes payments on the debt.

- The employer's compensation expense is the amount contributed or committed to be contributed for a given year.

Exchange member organizations proposing to establish an ESOP should submit drafts of the proposals to Surveillance Director.

(SEC Staff to NYSE) (No. 77-2, June 1977)

(c)(2) DEFINITIONS; NET CAPITAL (continued)

/08 Capital Contributions from Parent, Using Borrowed Funds

The parent of a broker-dealer may borrow funds and infuse those funds as additional paid-in capital into the firm without adverse net capital consequences provided the broker-dealer:

1. Is not, in any way, a party to the lending arrangement;

2. Has no assets, directly or indirectly, pledged to secure the loan; and

3. Is not subject to any recourse of any kind to the lender for collection of the loan against the parent.

(SEC Staff of DMR to NASD)

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(c)(2) DEFINITIONS; NET CAPITAL (continued)

(i) ADJUSTMENTS TO NET WORTH RELATED TO UNREALIZED PROFIT OR LOSS, DEFERRED TAX PROVISIONS, AND CERTAIN LIABILITIES

(A) Adding unrealized profits (or deducting unrealized losses) in the accounts of the broker or dealer;

(B)(1) In determining net worth, all long and all short positions in listed options shall be marked to their market value and all long and all short securities and commodities positions shall be marked to their market value.

/01 Non-Marketable Securities, Mark to Market

Securities, long or short, with no ready market should be valued at fair value as determined by the management of the broker-dealer.

Valuation procedures for securities that are not readily marketable should be designed to approximate the value that would have been established by market forces and "are generally a good faith estimate by management to determine the value of non-marketable securities". Among other things, consideration should be given to prices at which recent sales (purchases) were made with clients, customers or others.

(SEC Letter to Power Securities Corp., October 3, 1988) (No. 89-6, June 1989)

(2) In determining net worth, the value attributed to any unlisted option shall be the difference between the option's exercise value and the market value of the underlying security. In the case of an unlisted call, if the market value of the underlying security is less than the exercise value of such call it shall be given no value and in the case of an unlisted put if the market value of the underlying security is more than the exercise value of the unlisted put it shall be given no value.

/01 Long and Short Unlisted Options

In determining net worth, both long and short unlisted options are valued at their "in the money" amounts. The time value portion of the premium is ignored. (See interpretation 15c3-1(c)(2)/01.)

(SEC Staff to NYSE)

(c)(2)(i) DEFINITIONS; NET CAPITAL: ADJUSTMENTS TO NET WORTH RELATED TO UNREALIZED PROFIT OR LOSS, DEFERRED TAX PROVISIONS, AND CERTAIN LIABILITIES (continued)

(C) Adding to net worth the lesser of any deferred income tax liability related to the items in (1), (2), and (3) below, or the sum of (1), (2), and (3) below;

(1) The aggregate amount resulting from applying to the amount of the deductions computed in accordance with paragraph (c)(2)(vi) of this section and Appendices A and B, § 240.15c3-1a and 240.15c3-1b, the appropriate Federal and State tax rate(s) applicable to any unrealized gain on the asset on which the deduction was computed;

(2) Any deferred tax liability related to income accrued which is directly related to an asset otherwise deducted pursuant to this section;

(3) Any deferred tax liability related to unrealized appreciation in value of any asset(s) which has been otherwise deducted from net worth in accordance with the provisions of this section; and,

/01 Local Taxes (City)

Local (city) income taxes also qualify to be added back.

(SEC Staff to NYSE)

(c)(2)(i)(C) DEFINITIONS; NET CAPITAL: ADJUSTMENTS TO NET WORTH RELATED TO UNREALIZED PROFIT OR LOSS, DEFERRED TAX PROVISIONS, AND CERTAIN LIABILITIES (continued)

/02 Haircuts and Undue Concentration Charges

The potential addback is computed by applying the tax rates to the total of all the haircuts and undue concentration charges. It is not computed only on positions which have an unrealized gain.

Example:

30% Securities	Cost	Market Value
A	100	200
B	100	100
C	100	80
Total	300	380

The tax rates are applied to 30% of $380, or $114.

This amount is still effectively limited to the actual deferred tax credit attributable to specified items such as these. For example, assume that the broker had no timing differences other than the net unrealized appreciation in these three securities. His deferred tax credit account would reflect the tax rate applied to the $80. His addback would thus be limited to the amount in the deferred tax credit account.

(SEC Staff to NYSE)

/03 Short Positions (Related Taxes)

This subparagraph also applies to taxes related to short positions.

(SEC Staff to NYSE)

(c)(2)(i) DEFINITIONS; NET CAPITAL: ADJUSTMENTS TO NET WORTH RELATED TO UNREALIZED PROFIT OR LOSS, DEFERRED TAX PROVISIONS, AND CERTAIN LIABILITIES (continued)

(D) Adding, in the case of future income tax benefits arising as a result of unrealized losses, the amount of such benefits not to exceed the amount of income tax liabilities accrued on the books and records of the broker or dealer, but only to the extent such benefits could have been applied to reduce accrued tax liabilities on the date of the capital computation, had the related unrealized losses been realized on that date.

/01 Deferred Tax Debit

The rule provides that tax benefits can be added to net worth to the extent that income tax liabilities could have been reduced on the date of the capital computation, if the related unrealized losses had been realized on that date. This means that, for example, a calendar year company that has realized gains but unrealized losses at December 3lst can offset the unrealized losses to the extent of the realized gains on that date but immediately at the beginning of the next year will not have the right of offset for the unrealized losses, since no realized gains as yet exist.

Certain deferred tax debits relating to deferred compensation payable may be treated in a like manner. Where a deferred compensation plan is structured so that the broker-dealer may at any time at its option make payment, the related deferred income tax receivable may be applied to reduce the tax liability on the broker-dealer's books for other items.

(SEC Staff to NYSE) (No. 77-2, June l977)

(c)(2)(i) DEFINITIONS; NET CAPITAL: ADJUSTMENTS TO NET WORTH RELATED TO UNREALIZED PROFIT OR LOSS, DEFERRED TAX PROVISIONS, AND CERTAIN LIABILITIES (continued)

(E) Adding to net worth any actual tax liability related to income accrued which is directly related to an asset otherwise deducted pursuant to this section.

/01 Add-Back to Net Worth of Deferred Tax Liabilities Directly Related to Certain Non-Allowable Assets

A broker-dealer may add-back to net worth the amount of its deferred tax liabilities which are directly related to the following non-allowable assets:

- Software assets capitalizing certain costs associated with internal software development;
- Prepaid advertising; and
- Distribution network and prepaid selling commission.

(SEC Letter to Charles Schwab & Co., Inc., October 25, 1999)
(SEC Letter to Advanced Clearing, Inc., October 25, 1999) (No. 01-3, March 2001)
(SEC Letter to John Hancock Funds, LLC, December 12, 2006) (No. 07-4, April 2007)

(F) Subtracting from net worth any liability or expense relating to the business of the broker or dealer for which a third party has assumed the responsibility, unless the broker or dealer can demonstrate that the third party has adequate resources independent of the broker or dealer to pay the liability or expense.

(G) Subtracting from net worth any contribution of capital to the broker or dealer:

(1) Under an agreement that provides the investor with the option to withdraw the capital; or

(2) That is intended to be withdrawn within a period of one year of contribution. Any withdrawal of capital made within one year of its contribution is deemed to have been intended to be withdrawn within a period of one year, unless the withdrawal has been approved in writing by the Examining Authority for the broker or dealer.

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(c)(2) DEFINITIONS; NET CAPITAL (continued)

(ii) SUBORDINATED LIABILITIES

Excluding liabilities of the broker or dealer which are subordinated to the claims of creditors pursuant to a satisfactory subordination agreement, as defined in Appendix (D), 17 CFR 240.15c3-1d.

(c)(2) DEFINITIONS; NET CAPITAL (continued)

(iii) SOLE PROPRIETORS

Deducting, in the case of a broker or dealer who is a sole proprietor, the excess of liabilities which have not been incurred in the course of business as a broker or dealer over assets not used in the business.

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(c)(2) DEFINITIONS; NET CAPITAL (continued)

(iv) ASSETS NOT READILY CONVERTIBLE INTO CASH

Deducting fixed assets and assets which cannot be readily converted into cash (less any indebtedness excluded in accordance with subdivision (c)(1)(viii) of this section) including, among other things:

/01 Liabilities Secured by Non Allowable Assets

For a fixed liability to be allowed as an offset against assets, as described in subparagraph (c)(1)(viii) of SEA Rule 15c3-1, the loan agreement must be submitted to and acceptable to the Exchange prior to such reduction becoming effective.

(NYSE Information Memo No. 80-66) (No. 83-2, April 1983)

/011 Fixed Liabilities-Definition

Fixed liabilities are liabilities with remaining maturity of one year or more. The portion of such liabilities which matures in less than one year is considered current and cannot be used as an offset against assets, as described in subparagraph (c)(1)(viii) of SEA Rule 15c3-1.

(SEC Staff to NYSE) (No. 91-6, July 1991)

/02 Suspense Accounts

The net capital treatment of security positions and money balances whose ultimate disposition is not known, e.g. DKs and suspense items which remain unresolved seven (7) business days after discovery (see interpretation 15c3-1(c)(2)(iv)/022), is as follows:

- Long position and related debit balance, and short position and related credit balance – proprietary commitments that cannot operate to increase net capital;
- Long positions only – ignored;
- Short position only – deduct appropriate % of current market value (see SEA Rule 15c3-1(c)(2)(v)(A));
- Credit balance only – included in aggregate indebtedness;
- Debit balance only – charged;
- DKs and other suspense items which as of the capital computation date are not yet seven business days old need not be deducted from net worth or included in Aggregate Indebtedness in the current capital computation. If resolved, such items may be treated properly (as appropriate) upon reclassification or resolution. However, all items that are seven business days or older as of the computation date described would be reported as suspense items, even if resolved before the FOCUS is filed, and are treated as above.

(SEC Staff to NYSE) (No. 79-4, March 1979)

(c)(2)(iv) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/021 Reconciliation Differences

Net overall unfavorable bank account, correspondent account, clearing corporation and securities depository reconciliation differences disclosed by reconciliations other than those required under SEA Rule 17a-13 (Quarterly Security Counts) shall be deducted in computing net capital if not resolved within the below named number of business days from the date of receipt of the statement of account from the carrying entity. Each broker-dealer having any such differences shall maintain a record of the date of receipt of the pertinent statement of account or in the absence of such record, shall compute the elapsed days from the date of the statement. The treatment of differences disclosed by reconciliations required under SEA Rule 17a-13 shall be governed by the requirements of that Rule.

	Not Resolved Within
Bank accounts	Seventeen (17) business days
Correspondents' accounts	Seventeen (17) business days
Clearing corporations	Seven (7) business days
Securities depositories	Seven (7) business days

Differences which have been resolved but which have not yet been appropriately corrected in the records shall be so identified on the reconciliations and may be considered resolved for purposes of this interpretation. It is expected that such differences will not carry over to the following reconciliation. Unresolved favorable and unfavorable differences with the same carrying entity may be netted for purposes of determining the impact, if any, upon the capital computation. The net overall amount or value of an unresolved favorable difference shall be disregarded for capital purposes. The net overall amount or value of an unresolved unfavorable difference within a carrying entity shall be deducted in computing net capital.

For example, the following represent deductions because differences were not resolved with the carrying entity within 17 business days from the date of receipt of the statements of accounts:

A Bank Account	Item One	Item Two	Totals
Deposits per books	$15,000	$ 16,000	$31,000
Deposits per bank statement	10,000	18,000	28,000
Differences	$ 5,000	$ -2,000	$ 3,000

A deduction of $3,000 is required in computing net capital.

(c)(2)(iv) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/021 Reconciliation Differences (Continued)

Statement of Account Received from a Correspondent

Long 100 XYC - current value	$10,000
Per books 100 XYB - current value	12,000
Deduction required in computing net capital	$ 2,000

NYSE Rule 440.10 calls for receipt of position statements as frequently as good business practice requires, but not less than once per month with respect to securities held by clearing corporations, the Depository Trust Company, other organizations, or correspondents. The rule also requires the reconciliation at least once per month of all such securities and money balances by comparison of the clearing corporation's or correspondent's position statements to the broker-dealer's books and records. It also requires that differences be promptly reported to the contra organization and that such differences be promptly resolved by both.

(SEC Staff to NYSE) (No. 79-4, March 1979)

/022 Security Suspense and Differences

In computing net capital, the deductions for long and short security suspense and difference positions with related money amounts and short positions without related money noted in interpretations 15c3-1(c)(2)(iv)/02 and /021 above may be graduated over 28 business days in accordance with the schedule described under subparagraph (c)(2)(v) of SEA Rule 15c3-1.

(SEC Staff to NYSE) (No. 83-2, April 1983)

/023 Cash Suspense and Securities Difference Accounts Are Not to be Netted

Amounts in cash suspense accounts are to be treated broadly (that is, the debits, as of the net capital computation date, are to be treated as non-allowable assets, and the total credits are to be included in aggregate indebtedness).

Securities difference accounts may not be netted for any reason. Long securities differences may not increase net capital.

(SEC Staff of DMR to NASD, April 1981)

(c)(2)(iv) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/03 Subordinations - Non-Conforming

Both the asset and the liability relating to a non-conforming subordination shall be ignored in computing net capital if the claim of the lender to the related asset is subordinate to the claims of general creditors.

(SEC Staff to NYSE)

/04 Cash Surrender Value

The cash surrender value of life insurance policies is not a charge if it is owned by the broker-dealer and the face amount of the policies are payable to the broker-dealer.

(SEC Staff to NYSE) (No. 76-4, April 1976)

/05 Cash Surrender Value – "Split Dollar" Life Insurance Policy

The cash surrender value of a "split dollar" life insurance policy recorded as an asset on the books of a broker-dealer is not required to be deducted from net worth in determining net capital provided such asset is readily convertible into cash and is payable directly to the broker-dealer in the event of the death of the insured or the termination of the policy by the broker-dealer.

Under a "split dollar" life insurance policy, the cash surrender value is payable to the broker-dealer and any excess of face amount of the policy over the cash surrender value upon the death of the insured is paid to a designated beneficiary.

(SEC Letter to Smith Barney, Harris Upham & Co., Inc., August 10, 1978)
(No. 79-4, March 1979)

/06 Assets Secured by a Letter of Credit

Assets not otherwise readily convertible into cash, secured only by a letter of credit (whether collateralized or not) must be deducted from net worth in computing net capital.

(SEC Letter to NASD, August 17, 1981 and SEC Release No. 34-18737, May 12, 1982)
(No. 83-2, April 1983)

(c)(2)(iv) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/07 Whole Loan Mortgages

Broker-dealer's investments in whole loan mortgages or whole loan mortgage pools (e.g., mortgage loans that have not been converted into securitized form) are not allowable for purposes of computing net capital.

(SEC Staff to NYSE) (No. 92-4, January 1992)

/08 DTC Preferred Stock

The par value ($100 per share) of the new variable rate non-cumulative non-voting Series "A" Preferred Stock issued by the Depository Trust Corporation (DTC), for which a broker-dealer is required to purchase under DTC's clearing fund formula can be considered an allowable asset. This amount should also be reported on the Focus Balance Sheet under Clearing Organizations – Other on line item number 290.

(SEC Letter to The Depository Trust Company, August 21, 2000)
(No. 01-3, March 2001)

/09 Assets Pledged as Collateral for a Surety Bond

A broker-dealer that is required to maintain a surety bond by the state in which it is headquartered and pledges its interest in a savings account as collateral for the bond must treat the pledged asset as non-allowable for net capital purposes.

(SEC Staff of DMR to NASD, April 3, 1980)

(NEXT PAGE IS 270)

(c)(2)(iv) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

(A) FIXED ASSETS AND PREPAID ITEMS

Real estate; furniture and fixtures; exchange memberships; prepaid rent; insurance and other expenses; goodwill; organization expenses;

/01 Capitalized Leases

Capitalized leases are treated as purchases of assets which collateralize a financing loan. The liability, representing the present value of the future lease payments, is treated as indebtedness collateralized by the asset. To receive favorable treatment, the assets must either be "acquired for use in the ordinary course of the trade or business of a broker or dealer", or the lessor's sole recourse must be limited to the leased property.

(SEC Staff to NYSE)

These arrangements require Exchange approval under NYSE Rule 328 and may be deductions for computations under NYSE Rule 326 if the agreements contain acceleration clauses.

(NYSE Information Memo No. 80-66) (No. 83-2, April 1983)

When the lease of computer or telephone equipment from a vendor-lessor or bank or other financial institution is capitalized, 50% of the capitalized lease liability may be treated as adequately secured for a period of two years after the lease was entered into without demonstration of the adequacy of the collateral.

(SEC Letter to NASD, April 17, 1986) (No. 88-14, August 1988)

The portion of the lease liability which matures in less than one year, is not to be treated as indebtedness collateralized by the asset. Favorable treatment is allowed for the assets only to the extent of that portion of the liability which matures in more than one year.

(SEC Staff to NYSE) (No. 91-6, July 1991)

/02 Prepaid Non-Allowable Assets – Add-Back of Tax Liability

See interpretation 15c3-1(c)(2)(E)(i)/01.

(c)(2)(iv) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

(B) CERTAIN UNSECURED AND PARTLY SECURED RECEIVABLES

All unsecured advances and loans; deficits in customers' and non-customers' unsecured and partly secured notes; deficits in omnibus credit accounts maintained in compliance with the requirements of 12 CFR 220.7(f) of Regulation T under the Act, or similar accounts carried on behalf of another broker or dealer, after application of calls for margin, marks to the market or other required deposits that are outstanding 5 business days or less; deficits in customers' and non-customers' unsecured and partly secured accounts after application of calls for margin, marks to market or other required deposits that are outstanding 5 business days or less, except deficits in cash accounts as defined in 12 CFR 220.8 of Regulation T under the Act for which not more than one extension respecting a specified securities transaction has been requested and granted, and deducting for securities carried in any of such accounts the percentages specified in paragraph (c)(2)(vi) of this section or Appendix A, § 240.15c3-1a; the market value of stock loaned in excess of the value of any collateral received therefor; receivables arising out of free shipments of securities (other than mutual fund redemptions) in excess of $5,000 per shipment and all free shipments (other than mutual fund redemptions) outstanding more than 7 business days, and mutual fund redemptions outstanding more than 16 business days; and any collateral deficiencies in secured demand notes as defined in Appendix D, § 240.15c3-1d; a broker or dealer that participates in a loan of securities by one party to another party will be deemed a principal for the purpose of the deductions required under this section, unless the broker or dealer has fully disclosed the identity of each party to the other and each party has expressly agreed in writing that the obligations of the broker or dealer do not include a guarantee of performance by the other party and that such party's remedies in the event of a default by the other party do not include a right of setoff against obligations, if any, of the broker or dealer.

(c)(2)(iv)(B) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/01 Free Shipments

On other than mutual fund redemptions, the charge for a free shipment outstanding seven business days or less applies only to the excess over $5,000, which is computed by aggregating together all shipments made on a particular day to a particular broker.

Securities sent to a transfer agent for tender or exchange are not considered to be related to free shipments.

(SEC Staff to NYSE)

A shipment by mail of securities to a bank, which serves as the seller's agent for the collection of proceeds, is not a free shipment.

(SEC Release No. 34-11854, November 20, 1975)

To the extent a broker-dealer used the facilities of a bank, a clearing agency such as Correspondent Delivery and Collection Service, or a common carrier such as Brink's to act as the seller's agent in effectuating securities deliveries, the deliveries are not considered to be free shipments. Once the agent releases control of the securities to the purchaser, payment should be promptly receive by the agent or the broker-dealer within a few hours in accordance with trade custom.

(SEC Staff to NYSE) (No. 76-4, April 1976)

(c)(2)(iv)(B) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/02 Cash Accounts

Haircut and liquidating deficit charges on a deficit cash account do not apply to the entire account. Rather, they apply only to cash transactions that are:

- In deficit; and
- The subject of more than one extension of time or for which an extension should have been, but was not, obtained; and
- Part of an account that liquidates to a deficit.

If all three conditions do not exist, there would be no charge with respect to the subject transaction.

For municipal securities, since Regulation T does not apply, the charges are imposed on transactions that are unpaid after five business days beyond settlement date (for C.O.D. transactions, 42 calendar days after trade date).

For sales transactions, the time frames of SEA Rule l5c3-3(m) apply subject however to extensions of time that have been obtained. For sales transactions in securities exempt from SEA Rule 15c3-3(m), charges shall be applied if the securities are not received within ten business days after settlement date.

(SEC Staff to NYSE) (No. 76-4, April l976) (No. 93-6, November 1993)

/021 Advances to Customers Collateralized by Uncertificated Mutual Funds

Where a customer pledges uncertificated mutual fund shares carried in an account by the fund in the customer's name, the broker-dealer may have a perfected security interest under one of the following conditions:

a) The fund upon the customer's instruction issues certificates for the pledged shares to the broker-dealer.
b) The pledged shares are transferred to an account carried by the fund under the conditions described in interpretation 15c3-3(c)(1)/04 relating to control of Uncertificated Mutual Fund Shares.
c) The fund is notified and agrees that subject to the broker-dealer's lien, the customer may not redeem, transfer, exchange or otherwise effect transactions involving their fund shares pledged to the broker-dealer. Under this condition the shares pledged may not be used to satisfy possession or control requirements related to other customers.

(SEC Staff to NYSE) (No. 86-8, August 1986)

(c)(2)(iv)(B) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/03 Joint Trading and Investment Accounts

See interpretation 15c3-1(c)(2)(vi)/02.

/04 Cash Transactions in GNMA's Including TBAs and Standbys

See interpretation 15c3-1(c)(2)(xii)/02.

/05 (Reserved)

/06 Unendorsed Stock Certificates

A broker-dealer holding unendorsed stock certificates registered in the names of its customers, which are no longer in such customers' accounts, should deduct the market value of the securities from net worth in computing net capital when the certificates have been held by the firm for ten business days past settlement date of the sales transaction and the customer has been paid for the sale.

(SEC Letter to NASD, October 27, 1983) (No. 92-13, December 1992)

/061 Partial Payment on Unendorsed Stock Certificate

When a customer sells a security and has been paid for only a portion of their sale and the broker-dealer is holding an unendorsed stock certificate registered in the name of the customer, the market value of the securities less the free credit balance remaining in the customer's account would be deducted from net worth in computing net capital.

(SEC Staff to NYSE) (No. 96-4, November 1996)

(c)(2)(iv)(B) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/07 Stock Loaned

The market value of stock loaned in excess of the value of any collateral received may be computed on a broker-by-broker basis.

(SEC Letter to Oppenheim, Appel, Dixon & Co., May 7, 1979)
(No. 79-10, December 1979)

/071 Stock Loan Collateralized by a Letter of Credit

A letter of credit received as collateral to a stock loan has no value in the computation of stock loan deficit charges. The position would be considered an unsecured short position.

(SEC Staff to NYSE) (No. 92-4, January 1992)

/072 Securities Loaned through Euroclear

Securities loaned through Euroclear against an irrevocable guarantee, which constitutes the legal and functional equivalent of an irrevocable letter of credit, shall have no value in computing securities loaned deficit charges. The position would be considered an unsecured short position similar to interpretation 15c3-1(c)(2)(iv)(B)/071.

(SEC Staff to NYSE) (No. 93-6, November 1993)

(c)(2)(iv)(B) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/08 Stock Loan Deficits

Stock loan deficits need not be deducted in computing net capital for one business day from the day the deficit arises provided the broker-dealer issues a mark-to-market call and collects payment on that day.

(SEC Letter to Bear, Stearns & Co., September 16, 1980) (No. 81-3, July 1981)
(SEC Staff to NYSE) (No. 05-8, April 2005)

Stock loan deficits need not be deducted in computing net capital, to the extent the deficit can be offset with equity in securities borrowed items with the same broker-dealer, provided that such securities loan contracts can be legally offset.

(SEC Staff to NYSE) (No. 83-2, April 1983)

Stock loan deficits need not be deducted in computing net capital for one business day from the day the deficit arises provided the broker-dealer returns the stock loan on that day. This provision can be applied on an overnight stock loan contract only if at the time of origination the contract was properly collateralized.

The broker-dealer will be subject to the deficit capital charge if the stock loan contract that is in deficit is rolled over without additional funds or securities received from the counterparty.

(SEC Staff to NYSE) (No. 05-8, April 2005)

/081 Issuing Mark to Market Call and Collecting Payment on Stock Loan Deficits Focusing Around Bank Holidays

A broker-dealer can reduce or eliminate a stock loan deficit by issuing a mark to market call and collecting payment from the lender by the close of the next business day following the date of such determination.

In cases where the broker-dealer is unable to process the mark because the next business day is a domestic or foreign bank holiday, but the securities exchanges are open, the bank holiday will not count as a business day. As such, a broker-dealer will be allowed to reduce or eliminate a stock loan deficit by issuing a mark to market call and collecting payment from the lender by the close of the next business day after the bank holiday.

(SEC Staff to NYSE) (No. 02-7, August 2002)

(c)(2)(iv)(B) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/09 Securities Borrowed Deficits

A broker-dealer which has borrowed securities (borrower) must mark the borrowed securities to the market each business day, as of the close of the prior day's business, and determine the amount of collateral held by any securities lender (lender) which exceeds the current market value of the securities borrowed from that lender (excess collateral). The borrower must deduct from its net worth in computing its net capital:

a) the amount of collateral held by any one lender which exceeds one hundred and five percent (l05%) of the current market value of the securities borrowed from that lender; or

b) if greater, the amount of excess collateral held by any one lender to the extent the excess collateral is greater than twenty percent (20%) of the borrower's excess net capital (net capital greater than the minimum required); plus

c) the total amount of excess collateral held by all lenders in aggregate which exceeds three hundred percent (300%) of the borrower's excess net capital reduced by the charge that the broker-dealer has already incurred under the above standards.

Securities borrowed deficits need not be deducted in computing net capital for one business day from the day the deficit arises provided the broker-dealer issues a mark-to-market call and collects payment on that day.

In computing deficits excess collateral related to other securities borrowed or securities loaned due to the same lender may be considered provided that such contracts may be legally offset.

(SEC Letter to CBOE, December 7, 1983) (No. 84-1, January 1984) (No. 05-8, April 2005)

Securities borrowed deficits need not be deducted in computing net capital for one business day from the day the deficit arises provided the broker-dealer returns the securities borrowed on that day. This provision can be applied on an overnight securities borrowed contract only if at the time of origination the contract was properly collateralized.

The broker-dealer will be subject to the deficit capital charge if the securities borrowed contract that is in deficit is rolled over without additional funds or securities received from the counterparty.

(SEC Staff to NYSE) (No. 05-8, April 2005)

(c)(2)(iv)(B) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/091 Issuing Mark to Market Call and Collecting Payment on Securities Borrowed Deficits Focusing Around Bank Holidays

A broker-dealer can reduce or eliminate a securities borrowed deficit by issuing a mark to market call and collecting payment from the lender by the close of the next business day following the date of such determination.

In cases where the broker-dealer is unable to process the mark because the next business day is a domestic or foreign bank holiday, but the securities exchanges are open, the bank holiday will not count as a business day. As such, a broker-dealer will be allowed to reduce or eliminate a securities borrowed deficit by issuing a mark to market call and collecting payment from the lender by the close of the next business day after the bank holiday.

(SEC Staff to NYSE) (No. 02-7, August 2002)

/092 Non-Marketable Securities Collateralizing Purpose Borrow Transactions

Securities that are non-marketable, as defined in SEA Rule 15c3-1, and which have been received as collateral to a securities borrowed transaction that was originally transacted for a permitted purpose pursuant to FRB Reg. T Section 220.10(a) ("Purpose Borrow"), where cash or other marketable securities, as defined in SEA Rule 15c3-1, have been pledged, shall be subject to a 100% net capital charge if they allocate to a box location for more than five (5) business days in the case of a pre-borrow transaction and for more than two (2) business days in all other circumstances.

Where the securities received as collateral to a Purpose Borrow transaction are non-marketable, as defined in SEA Rule 15c3-1, but margin has been collected by the broker-dealer, the applicable net capital charge would be the cash receivable or market value of the securities pledged, less the margin collected.

See SEA Rule 15c3-1(c)(2)(iv)(F)(3)(ii)/06 (Non-Marketable Securities Collateralizing Reverse Repurchase Transactions).

(SEC Staff to NYSE) (No. 03-3, April 2003)
(SEC Staff to NYSE) (No. 06-5, June 2006)

(c)(2)(iv)(B) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/093 Non-Purpose Equity Securities Borrowed Transactions

A broker-dealer, including an "exempted borrower" as defined pursuant to FRB Regulation T Section 220.2, that engages in equity securities borrowed transactions (versus cash collateral) solely for financing the positions of another broker-dealer, where the equity securities were initially borrowed without a "permitted purpose" pursuant to FRB Regulation T Section 220.10(a) and placed in a box location, should maintain equity in such "non-purpose" securities borrowed account with each counterparty at least equal to the haircut deduction on the market value of the equity securities as required under SEA Rule 15c3-1 subparagraphs (c)(2)(vi) and (c)(2)(vii) (excluding undue concentration charges pursuant to subparagraph (c)(2)(vi)(M)).

A separate identifiable "non-purpose" securities borrowed account with each counterparty should be set up to record the activity.

If the equity in the account with the counterparty is not equal to or greater than the total haircut deduction computed for the positions carried in the "non-purpose" securities borrowed account, the broker-dealer must charge its own capital for the deficiency. If the broker-dealer's account with the counterparty liquidates to a deficit, the charge to the broker-dealer will be for the sum of the deficit and the applicable haircut deduction.

The computed charges are applicable even if the "non-purpose" securities borrowed positions are subsequently used for a permitted purpose pursuant to FRB Regulation T Section 220.10(a).

(SEC Staff to NYSE) (No. 05-2, January 2005)

Example:

A broker-dealer that engages in a non-purpose equity securities borrowed transaction and provides to the counterparty $1,700 in cash collateral should receive from the counterparty an equity security with a market value of at least $2,000.

The equity of $300 ($2,000 market value - $1,700 cash collateral) maintained on the non-purpose equity securities borrowed transaction is equal to the 15% haircut deduction on the equity security with a market value of $2,000.

(SEC Staff to NYSE) (No. 05-8, April 2005)

(c)(2)(iv)(B) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/10 Non-Purpose Loans Collateralized by Certificates of Deposit

Non-Purpose Loans collateralized by negotiable certificates of deposit need not be deducted provided the following conditions are satisfied:

1. The negotiable CDs are issued by U.S. Banks and are denominated in U.S. Dollars.

2. Negotiable CDs with maturity of one year or less securing a non-purpose loan shall have an initial and maintenance margin requirement of 10%. Negotiable CDs with longer maturities securing a non-purpose loan account shall have an initial and maintenance margin requirement of 25%. Any cash margin deficiencies must be charged to capital.

3. CDs held as collateral for non-purpose loans to customers may not be deposited in the Special Reserve Bank Account to satisfy a SEA Rule 15c3-3 reserve deposit requirement.

4. Two percent of the total amount of non-purpose loan debits must be deducted in the broker-dealer's computation of net capital under NYSE Rule 325.

5. Broker-dealers are prohibited from selling CDs short to customers.

6. Brokered CDs with any one bank, which are used for collateral, may not exceed l00 percent of the broker-dealer's excess net capital.

(SEC Letters to NYSE, August 13, 1984 and November 5, 1987)
(No. 88-14, August 1988)

(c)(2)(iv)(B) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/11 Deficits in Introduced Accounts

Deficits in unsecured and partly secured introduced accounts shall be deducted by the carrying broker-dealer and the introducing broker-dealer when the clearing agreement states that such deficits are the liability of the introducing broker-dealer.

If the carrying broker-dealer subordinates its receivable for the deficit amount to the claims of creditors of the introducing broker-dealer, the subordinated receivable shall be deducted as an unallowable asset by the carrying broker-dealer. The introducing broker-dealer may exclude the subordinated liability from Aggregate Indebtedness; however, it shall be considered as a liability in the determination of net worth since it is not subject to a satisfactory subordination agreement as defined in Appendix D. (See paragraph (c)(1)(xi) of SEA Rule 15c3-1.)

If the carrying broker-dealer subordinates capital to the introducing broker-dealer to offset the deduction, the carrying broker-dealer has a double deduction, one for the deficit and one for the subordinated amount.

(SEC Staff to NYSE) (No. 88-14, August 1988)

The amount is deductible by the carrying broker-dealer upon occurrence after application of timely calls for margin, marks to market or other required deposits which are not outstanding for more than five (5) business days unless there is reason to believe payment will not be made. The introducing broker-dealer must deduct the charge on the day after it becomes a charge to the carrying broker and the carrying broker-dealer must advise the introducing broker-dealer in writing on a daily basis of all such deficits to be charged.

(SEC Staff to NYSE) (No. 89-12, October 1989)

/111 Customers' Unsecured/Partly Secured Deficits Offset by Correspondent' Deposits

Deficits in customers' unsecured and partly secured accounts of an introducing broker-dealer do not have to be deducted from net capital by the carrying broker-dealer provided sufficient deposits were received from the introducing broker-dealer which can be legally applied to cover (fully secure) the applicable deficits. The introducing broker-dealer must still take the customer's deficits as a deduction to net capital when the clearing agreements state that such deficits are its liability (see interpretation 15c3-1(c)(2)(iv)(B)/11). The amount of the introducing broker-dealer's deposits must also be included in the carrying broker-dealer's PAIB computation.

(SEC Staff to NYSE) (No. 02-3, February 2002)

(c)(2)(iv)(B) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/12 Credit Extended Upon Exercise of Employee Stock Option

When a broker-dealer exercises an employee stock option for a customer, it must have acknowledgement from the issuer that a freely transferable, readily salable and marketable security in negotiable form will be promptly delivered to the broker-dealer within 13 business days after exercise notice is given to the issuer (when acknowledgement is given by telephone, the condition should be restated in the transmittal to the issuer). The exercise shall be subject to the following:

1. When the security to be received from the exercise has not been sold and is not received within 13 business days after notice of exercise has been given, any related debit balance shall be treated as an unsecured debit for net capital purposes;

2. When the security to be received from the exercise has been sold and is not receivable from the issuer within 13 business days after notice of exercise has been given, the position shall be subject to a cash margin deficiency charge computed without allowing any value for the security not received (and is subject to the buy-in provision under SEA Rule 15c3-3(m) unless an extension of time is requested and approved under paragraph (n) of that rule). See interpretation 15c3-1(c)(2)(xii)/05.

(SEC Staff to NYSE) (No. 88-14, August 1988) (No. 97-6, October 1997)

/13 Customers' Debits Secured by Control or Restricted Stock

Only securities which can be publicly sold can be recognized in determining whether a customer's account is partially secured or unsecured. Where the value of publicly saleable securities is not sufficient to fully secure the customer debit, such debit is to be treated as an unsecured debit or partially secured debit, as applicable.

(SEC Staff to NYSE) (No. 92-1, January 1992)

(c)(2)(iv)(B) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/14 Customer Deficits in Listed Currency Options Secured by Letters of Credit

A letter of credit received from a customer shall be recognized to the extent it covers the margin required by the Philadelphia Stock Exchange for listed currency options. A liquidating deficit on the basis of not allowing value for the letter of credit must be deducted in computing net capital and the account treated as a partly secured account.

(SEC Staff to NYSE) (No. 93-6, November 1993)

/15 Ownership of Collateral

In order for collateral to secure an otherwise non-allowable asset in conformity with the net capital rule, the collateral itself, among other things, must be an allowable asset under the rule. The securities collateralizing the receivable held by a firm must be in the bearer, nominee, or firm name to have value for net capital purposes. Securities that are registered in the name of a custodian, such as Depository Trust Company, or securities that have been forwarded to a transfer agent for transfer into the name of the firm, can be considered acceptable for purposes of securing a receivable, provided all required documentation for transfer have been forwarded with the securities.

(SEC Staff of DMR to NASD, December 1983)

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(c)(2)(iv) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

(C) Interest receivable, floor brokerage receivable, commissions receivable from other brokers or dealers (other than syndicate profits which shall be treated as required in subparagraph (c)(2)(iv)(E) of this section), mutual fund concessions receivable and management fees receivable from registered investment companies, all of which receivables are outstanding longer than thirty (30) days from the date they arise; dividends receivable outstanding longer than thirty (30) days from the payable date; good faith deposits arising in connection with a non-municipal securities underwriting, outstanding longer than eleven (11) business days from the settlement of the underwriting with the issuer; receivables due from participation in municipal securities underwriting syndicates and municipal securities joint underwriting accounts which are outstanding longer than sixty (60) days from settlement of the underwriting with the issuer and good faith deposits arising in connection with an underwriting of municipal securities, outstanding longer than sixty (60) days from settlement of the underwriting with the issuer; and receivables due from participation in municipal securities secondary trading joint accounts, which are outstanding longer than sixty (60) days from the date all securities have been delivered by the account manager to the account members.

/01 Good Faith Deposits

A good faith deposit made in anticipation of an underwriting may be outstanding indefinitely without its being required to be deducted in computing net capital, so long as there is no indication that the broker has been eliminated from participation in the underwriting.

Good faith deposits relating to instances where there is no underwriting, such as a rejection of all bids under a competitive bid procedure, are required to be deducted subsequent to eleven business days after it is clear that the underwriting will not occur. Rejection of a bid would be indicative of such an occurrence.

(SEC Staff to NYSE)

/02 Income Taxes Receivable

Income taxes receivable are deducted in computing net capital even if acknowledged for payment by the taxing authority. Note however, that under certain circumstances the effect of deducting deferred tax debits might be offset by the addback to net worth of part or all of those amounts. (See interpretation 15c3-1(c)(2)(i)(D)/01.)

(SEC Staff to NYSE)

(c)(2)(iv)(C) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/03 Receivables, Deductible Fees

The following receivables are deducted in computing net capital:

- Fees receivable from banks for federal funds placement;
- Tender fees receivable from offerors;
- Commercial paper fees receivable from issuers.

(SEC Staff to NYSE)

/04 Exchange Membership - Proceeds of Sale

The net proceeds receivable from the sale of an exchange seat are not deducted in computing net capital provided they will be received within 30 days of the date of sale.

(SEC Staff to NYSE)

/05 Investment Company Management Fees Receivable

If investment company management fees are payable on a quarterly basis, are billed within eleven business days after the close of the quarter and are not outstanding more than eleven business days thereafter such receivables would not be deducted from net worth when computing net capital.

(SEC Staff to NYSE) (No. 79-7, August 1979)

/06 Trade Date Commissions

Commissions receivable from customers on unsettled regular way transactions need not be deducted even if they are currently unsecured provided that appropriate liabilities such as registered representative's compensation and taxes have been accrued on the related income.

(SEC Staff to NYSE) (No. 77-2, June 1977)

/07 Intercompany Accounts With Guaranteed Subsidiaries – Rescinded (FINRA Regulatory Notice 13-44)

(c)(2)(iv)(C) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/071 Intercompany Accounts With Non-Guaranteed Subsidiaries

Unsecured amounts due from a parent to a non-guaranteed broker-dealer subsidiary are not allowable assets in computing the subsidiary's net capital. However, where the parent is clearing transactions of the subsidiary, unsecured receivables represent funds transferred to the parent for bona-fide securities purchases or proceeds from the sale of securities held for the account of the subsidiary are an allowable asset for one business day pending settlement of a purchase or transfer of proceeds to the subsidiary or to a bank account in the name of the subsidiary over which the parent has no direct control.

(SEC Letter to Moore & Schley Cameron & Co., December 5, 1979)
(No. 81-9, December 1981)

/072 Intercompany Accounts with a Parent Bank

Cash deposits with a parent or affiliated bank will only have net capital value to the extent that the deposit represents normal day-to-day operating balances.

(SEC Staff to NYSE) (No. 84-9, November 1984)

/073 Netting of Intercompany Receivables and Payables with Affiliates

a) An account with an affiliate or a parent which could be classified as a customer under SEA Rule 15c3-3 (securities account) may not be netted with accounts of other affiliates. For this purpose they would be treated as cash accounts, margin accounts, etc.

b) Other accounts (non-securities accounts) of the same affiliate may be netted. However, cross netting of such accounts with different affiliated entities will not be permitted.

c) Netting can be accomplished by recording all non-securities transactions with affiliates in a single account carried for a parent organization. Transactions (payments and receipts) should be made according to instructions from the parent and details can be maintained in sub accounts. However, it must be clear that any creditor or other claimant against any of the entities can only proceed against the net account carried for the parent.

d) Accounts with parent organizations or affiliates which are not classifiable as securities accounts should not be carried in a securities account.

(SEC Staff to NYSE) (No. 91-9, July 1991)

(c)(2)(iv)(C) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/074 Reduction of Intercompany Accounts Receivable

The SEC has barred a Chief Financial Officer of a broker-dealer for violations of SEA Rule 15c3-1 that involved reducing unsecured intercompany accounts receivables by clearing house checks received by the broker-dealer from its parent when the parent did not have sufficient cash or liquid assets to cover the presented checks. This violation involved a "seg-offset" banking arrangement which was improperly used.

The SEC staff has advised that it is a violation to increase regulatory net capital through the improper recognition of uncleared checks received from an affiliated entity and that it may be regarded as an intentional circumvention of the rule.

Also, see interpretations 15c3-3 (Exhibit A - Item 1) /24, /25 and /26.

(SEC Release No. 34-30444, March 4, 1992) (No. 92-8, June 1992)

/075 Treatment of an Unsecured Receivable Due From a Guaranteed Subsidiary

An unsecured receivable due from a guaranteed subsidiary shall be treated as a non-allowable asset.

(SEC Staff to FINRA) (FINRA Regulatory Notice 13-44)

/08 Rebates or Interest Receivable Resulting From Securities Borrowed or Securities Loaned

Rebates or interest receivable in connection with securities borrowed or securities loaned from brokers or dealers need not be deducted from net worth when computing net capital provided the rebates or interest receivable are billed promptly and not aged over 30 days from the date they arise.

(SEC Staff to NYSE) (No. 81-9, December 1981)
(SEC Staff to NYSE) (No. 06-5, June 2006)

(c)(2)(iv)(C) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/081 Rebates or Interest Receivable From Institutions Pursuant to Securities Borrowed Transactions

Rebates or interest receivable from non-broker-dealer institutions resulting from securities borrowed transactions shall be deducted in computing net capital unless:

1. The written agreement between the broker-dealer and the non-broker-dealer institution required by SEA Rule 15c3-3(b)(3), provides for prompt payment by the institution of the rebates or interest owed to the broker-dealer.

   For purposes of securities borrows transacted pursuant to agency securities lending arrangements, a broker-dealer may maintain the written agreement required by SEA Rule 15c3-3(b)(3) with the agent lender in lieu of obtaining individual written agreements with each underlying non-broker-dealer institution principal counter party; and

2. The amount or value of the collateral held by the lender does not exceed 105% of the market value of the securities borrowed.

   For purposes of securities borrows transacted pursuant to agency securities lending arrangements, a broker-dealer may establish compliance of this provision with the agent lender in lieu of establishing compliance with each underlying non-broker-dealer institution principal counter party; and

3. The rebates or interest receivable are billed promptly and not aged more than thirty (30) calendar days from the billing date, which should be at least monthly.

   For purposes of securities borrows transacted pursuant to agency securities lending arrangements, a broker-dealer may establish compliance of this provision with the agent lender in lieu of establishing compliance with each underlying non-broker-dealer institution principal counter party, provided that the written agreement between the broker-dealer and the agent lender states that each underlying principal counter party has duly authorized the agent lender to perform this function on its behalf.

For purposes of this interpretation, agency securities lending does not refer to situations where the principal counter parties negotiate directly with the broker-dealer.

(SEC Staff to NYSE) (No. 90-11, December 1990)
(No. 06-5, June 2006) (No. 07-4, April 2007)

(c)(2)(iv)(C) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/09 Commissions or Concessions Receivable versus Commissions or Concessions Payable

Instances arise where a broker-dealer accrues concession income in connection with the sale of mutual funds and tax shelter vehicles or investments and at the same time accrues expenses relating thereto.

Concessions receivable need not be deducted from net worth to the extent they are offset by commissions or concessions payable to sales representatives or unaffiliated selling group members provided that:

1. A written contract exists between the broker-dealer and sales representative or unaffiliated selling group member, whereby the sales representative or unaffiliated selling group member waives payment of the commission or the concession until the broker-dealer is in receipt of the concessions;

2. The broker-dealer's liability for the commission or concession payable is limited solely to the proceeds of the concessions receivable;

3. The entire amount of the commission or concession payable must be accrued and that portion payable within twelve months must be included in aggregate indebtedness; and

4. The net capital requirement shall be increased by an amount equal to one percent of the remaining commission payable.

(SEC Letter to NASD, July 24, 1984) (No. 88-14, August 1988)

The SEC staff has issued a no-action letter according this treatment to receivables arising from selling interests or participation in direct participation programs, real estate investment trusts, single premium life insurance policies and variable annuities.

(SEC Letter to Securities Consultants, Inc., March 22, 1989) (No. 89-6, June 1989)

(c)(2)(iv)(C) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/091 Concessions Receivable from Individual Variable Annuities are Allowable for 30 Days; from Group Variable Annuities an Offset is Permitted

The staff of the SEC's Division of Market Regulation has concluded that since *individual* variable annuity products are registered under the Investment Company Act of 1940 ('40 Act), any concessions receivable therefrom come within the "...mutual fund concessions receivable and management fees receivable from registered investment companies..." language of SEA Rule 15c3-1(c)(2)(iv)(C). Therefore, a broker-dealer may give allowable asset treatment to concessions receivable from the sale of *individual* variable annuities for 30 days from the date they arise.

In contrast, *group* variable annuities are exempt from registration under the '40 Act; therefore, concessions receivable from the sale of these products are *not* allowable assets under SEA Rule 15c3-1(c)(2)(iv)(C). However, the staff of the SEC's Division of Market Regulation has no objection to member firms considering concessions receivable from the sale of group variable annuities as allowable assets if the member complies with the Concessions or Commissions Receivable and Related Concessions or Commissions Payable, Offset Permitted interpretation.

(SEC Staff of DMR to NASD, May 1999)

/092 Concessions Receivable, Offset Not Permitted with Payables of a Particular Program or Syndication

The permissible offset between concessions receivable and related commissions payable pursuant to *NASD Notices to Members 84-48* and *85-5* may not be extended to payables related to sales of a particular program or syndication. For example, a broker may not offset concessions receivable against legal fees payable.

(SEC Staff of DMR to NASD, April 1985)

/093 Distinction between Commission and Concession Receivable

A commission is generally considered to be a charge added to the gross price of securities purchased or deducted from the gross price of securities sold. A concession is an amount included in the gross price of the transaction that is retained by or payable to the broker-dealer executing the transaction. While a commission may occur in a retail transaction between a broker-dealer and a customer or between broker-dealers, a concession is more likely to occur between a broker-dealer and an issuer or another member of an underwriting group.

(SEC Staff to DMR to NASD, 1985)

(c)(2)(iv)(C) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/094 Concessions Receivable from a "Best Efforts" Offering, from Bank Escrow Agent

A broker-dealer shall receive allowable asset treatment for concessions receivable arising from a "best efforts" offering of securities in which an escrow account is utilized as required by SEA Rule 15c2-4, provided there is a written agreement between the bank escrow agent and the broker-dealer specifying that the bank escrow agent accepts responsibility *for direct* disbursement of the sales concessions due the broker-dealer.

(NASD Notice to Members 80-49, September 24, 1980)

(c)(2)(iv)(C) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/10 Due Bills Receivable

Due bills receivable from broker-dealers or banks covering dividends, stock splits or similar distributions, need not be deducted in computing net capital provided the broker-dealer promptly presented the due bill for payment and it is not older than 30 days from its payable date.

(SEC Staff to NYSE) (No. 81-9, December 1981)

/11 Commissions Receivable From a Broker-Dealer Parent

Commissions receivable from a broker-dealer parent are good assets for 30 days.

(SEC Staff to NYSE) (No. 88-14, August 1988)

/12 Commissions Receivable From a Foreign Broker-Dealer Parent

Commissions receivable from a foreign broker-dealer parent are considered unsecured and are not allowable for net capital purposes.

(SEC Staff to NYSE) (No. 88-14, August 1988)

/13 Commissions Receivable From a Savings and Loan

Commissions receivable from savings and loan associations and/or other thrift institutions must be deducted in the computation of net capital.

(SEC Letter to First United Fund, Ltd., August 15, 1984) (No. 88-14, August 1988)

/14 Floor Brokerage Receivable

Floor brokerage commissions receivable need not be deducted from net worth for a period of 30 days from the month end accrual date provided they are billed promptly after the close of the month.

(SEC Letter to Philadelphia Stock Exchange, July 15, 1984)
(No. 88-14, August 1988)

(c)(2)(iv)(C) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/15 Introduced Commissions/Fees Receivable

Commissions or fees receivable from a broker-dealer on introduced account activity need not be deducted from net worth for a period of 30 days from the month end accrual date provided they are billed promptly after the close of the month.

(SEC Letter to East/West Securities Co., March 27, 1989) (No. 89-9, July 1989)

/16 Federal Funds Sales & Swap Transactions

Federal Funds Sales - a broker-dealer may enter into loans of Federal funds without deducting the value of the transaction from net worth if:

1. The loan is with a depository institution;

2. The loan cannot exceed one business day, and

3. The Federal funds held by the broker-dealer resulted from the clearance of securities on the day the loan is made.

Federal Funds Swaps - A broker-dealer may engage in Federal funds swap transactions in which excess funds contained in their clearance account are swapped with registered broker-dealers or counterparties other than registered broker-dealers without deducting the value of the transaction from net worth if:

1. The swap does not exceed one business day, and

2. The broker-dealer must receive a certified check (in an amount equal to the swap) drawn on a bank as defined in Section 3(a)(6) of the Securities Exchange Act of 1934 simultaneously with the release of the funds.

(SEC Letters to Securities Industry Association, November 19, 1991)
(No. 92-7, May 1992) (No. 93-6, November 1993)

(c)(2)(iv)(C) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/17 Investment Advisory Fees

Investment advisory fees receivable from customers that have been earned and recorded as receivable but not yet deducted from the customer's account, may be treated as an allowable asset in computing net capital if all of the following conditions are met:

1. The broker-dealer has entered into a written agreement with each customer that permits the broker-dealer to deduct from the customer's securities account the full amount of the fees earned and accrued as receivable from such customer immediately upon the occurrence of either of the following events:

    - the termination of the advisory relationship or the initiation by the customer of a transfer of the account, whichever occurs first; or

    - the broker-dealer's filing for protection under applicable bankruptcy laws and/or the issuance of a protective decree under SIPA;

2. The broker-dealer has implemented controls to enable it to monitor and collect outstanding investment advisory fees due from a customer prior to the completion of any request to transfer the customer's account to another financial institution; including, where applicable, arranging for its carrying broker-dealer to provide notification of outgoing customer account transfer requests received by the carrying broker-dealer and to collect the outstanding fees from the customer's account;

3. The broker-dealer has procedures and controls reasonably designed to assure that the net liquid assets in the customer's account, equal or exceed the investment advisory fees earned and recorded as receivable by the broker-dealer from each such customer, but which have not yet been deducted from the customer's account; and

4. The fees are collected by the broker-dealer no later than six months from the date they are recorded as receivable.

(SEC Staff to FINRA) (FINRA Regulatory Notice 13-44)

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(c)(2)(iv) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

(D) INSURANCE CLAIMS

Insurance claims which, after seven (7) business days from the date the loss giving rise to the claim is discovered, are not covered by an opinion of outside counsel that the claim is valid and is covered by insurance policies presently in effect; insurance claims which after twenty (20) business days from the date the loss giving rise to the claim is discovered and which are accompanied by an opinion of outside counsel described above, have not been acknowledged in writing by the insurance carrier as due and payable; and insurance claims acknowledged in writing by the carrier as due and payable outstanding longer than twenty (20) business days from the date they are so acknowledged by the carrier; and,

/01 Insurance Claim Extensions

Extensions of time beyond the twenty day time frames specified in the Rule might possibly be granted by the SEC, but only on a case-by-case basis.

(SEC Staff to NYSE)

/02 Counsel's Opinion for Lost Certificates

Generally, there is no applicable charge for lost security certificates even though opinion of outside counsel has not been obtained provided the broker-dealer takes prompt steps for replacement of the loss. These steps should include placing a stop transfer order with the transfer agent, obtaining a replacement bond from an insurance company and transmitting it to the transfer agent, and whatever other steps would be necessary to expedite the replacement.

(SEC Staff to NYSE) (No. 77-2, June 1977)

(NEXT PAGE IS 319)

(c)(2)(iv) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

(E) OTHER DEDUCTIONS

All other unsecured receivables; all assets doubtful of collection less any reserves established therefor; the amount by which the market value of securities failed to receive outstanding longer than thirty (30) calendar days exceeds the contract value of such fails to receive; and the funds on deposit in a "segregated trust account" in accordance with 17 CFR 270.27d-1 under the Investment Company Act of 1940, but only to the extent that the amount on deposit in such segregated trust account exceeds the amount of liability reserves established and maintained for refunds of charges required by sections 27(d) and 27(f) of the Investment Company Act of 1940; Provided, That the following need not be deducted:

(1) Any amounts deposited in a Customer Reserve Bank Account or PAB Reserve Bank Account pursuant to § 240.15c3-3(e),

(2) Cash and securities held in a securities account at a carrying broker or dealer (except where the account has been subordinated to the claims of creditors of the carrying broker or dealer), and

(3) Clearing deposits.

/01 Fails to Receive Outstanding More Than 30 Calendar Days

The amount by which the market value of fails to receive outstanding longer than 30 calendar days exceeds the contract value is computed on a contract-by-contract basis.

(SEC Letter to Oppenheim, Appel, Dixon & Co., May 7, 1979)
(No. 79-10, December 1979)

/011 Syndicate Receivables

Syndicate profits receivable must be deducted (see SEA Rule 15c3-1(c)(2)(iv)(C)) unless the asset:

1. Adequately secures (see definition at SEA Rule 15c3-1(c)(5)) a fixed liability and are the sole recourse of the creditor for nonpayment of the liability, and

2. The loan agreement has been submitted to and found acceptable by the Exchange.

(SEC Staff to NYSE) (No. 88-14, August 1988)

(c)(2)(iv)(E) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/012 Emerging Markets Clearing Corporation (EMCC)

When computing net capital member firms of the Emerging Markets Clearing Corporation (EMCC) do not take deductions on open fails to receive outstanding longer than thirty calendar days and on open fails to deliver outstanding five business days or longer on Brady Bonds as defined by EMCC, if EMCC continues to:

1. guarantee settlement of all open fail positions; and

2. compute and collect daily net debit marks on all open fail positions.

(SEC Staff to NYSE) (No. 00-6, September 2000)

/02 Clearing Deposits Maintained With Broker-Dealers – Rescinded (No. 99-6, May 1999)

/021 Clearing Deposits of Introducing Brokers

An introducing broker may include its proprietary account assets and its clearing deposit held by its clearing broker as allowable assets in the computation of its net capital, provided that the introducing broker and the clearing broker adhere to the SEC No-Action letter on Proprietary Accounts of Introducing Brokers (PAIB) and its corresponding interpretations.

In addition, clearing deposits of introducing brokers must be maintained with a registered broker or dealer pursuant to a written clearing agreement and the clearing agreement must:

1. Permit the return of the deposit within 30 calendar days after cancellation of the agreement; and

2. State that the deposit does not represent an ownership interest in the clearing broker.

(c)(2)(iv)(E) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/021 Clearing Deposits of Introducing Brokers (continued)

The 30 calendar day period referred to above shall commence 5 business days after the date of the initial transfer of customer accounts and not on the date that notice of termination is given by either party to the clearing agreement. The amount of any clearing deposit held under the terms of the clearing agreement that is not returned to the introducing broker-dealer within 30 calendar days after the aforementioned 5 business day grace period, shall be treated as a non-allowable asset in the computation of the introducing broker-dealer's net capital commencing on the 31st calendar day after such grace period.

Note: If there is a monetary penalty against the introducing broker-dealer resulting from the voluntary termination of a clearing agreement, see interpretation 15c3-1(c)(2)(iv)(E)/0211.

(SEC Letter to NYSE and NASD, November 3, 1998) (No. 99-6, May, 1999)
(SEC Staff to NYSE) (No. 99-6, May 1999)
(FINRA Regulatory Notices 08-46 and 13-44)

/0211 Monetary Penalty Resulting From the Voluntary Termination of a Clearing Agreement

If a monetary penalty against an introducing broker-dealer results from its voluntary termination of a clearing agreement (termination penalty), the introducing broker-dealer must apply a net capital charge for the lesser of the amount of the termination penalty or the amount of its clearing deposit held by the clearing broker-dealer. The net capital charge must be applied on the date that the introducing broker-dealer provides notice of the termination to the clearing broker-dealer and continue until such date as the clearing broker-dealer returns the clearing deposit to the introducing broker-dealer.

The introducing broker-dealer must also make a determination, under generally accepted accounting principles, whether it must accrue a liability on its financial statements to reflect the effect of the voluntary termination of its clearing agreement. An introducing broker-dealer that accrues a liability for the full amount of the termination penalty may reduce the aforementioned net capital charge by the amount of such accrued liability. Introducing broker-dealers that use the basic method of computing their net capital requirements pursuant to SEA Rule 15c3-1 must also include the amount of any accrued liability in their computation of aggregate indebtedness.

(FINRA Regulatory Notices 08-46 and 13-44)

(c)(2)(iv)(E) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/0212 Clearing Agreements Containing a Termination Penalty Clause

Due to the potential lien by the clearing broker-dealer on an introducing broker-dealer's clearing deposit while a termination penalty clause remains in effect, if such introducing broker-dealer becomes the subject of a protective decree issued pursuant to the Securities Investor Protection Act of 1970, the introducing broker-dealer must treat any clearing deposit assets held by its clearing broker-dealer, up to the amount of the termination penalty, as non-allowable in computing its net capital. To avoid such a deduction, the clearing agreement must contain the following clause:

In the event that [the Introducing Broker-Dealer] is the subject of the issuance of a protective decree pursuant to the Securities Investor Protection Act of 1970 (15 USC 78aaa-lll), [the Clearing Firm's] claim for payment of a termination fee under this Agreement shall be subordinate to claims of [the Introducing Broker's] customers that have been approved by the Trustee appointed by the Securities Investor Protection Corporation pursuant to the issuance of such protective decree.

Further, when the termination penalty exceeds the amount of the clearing deposit, absent inclusion of the foregoing clause in the clearing agreement, a broker-dealer must determine, in accordance with generally accepted accounting principles, if any additional expense should be recorded or liability accrued.

The foregoing clause is voluntary for clearing broker-dealers. However, in order for an introducing broker-dealer that is party to a clearing agreement that contains a termination penalty clause to treat its clearing deposit at the clearing broker-dealer as an allowable asset for net capital purposes, its clearing agreement must include such clause. The clearing broker-dealer may provide for the inclusion of such clause either through an amended clearing agreement or an addendum to an existing clearing agreement.

The clearing agreement must also include the provisions of interpretation 15c3-1(c)(2)(iv)(E)/021. See also interpretation 15c3-1(c)(2)(iv)(E)/0211 for the treatment of a monetary penalty resulting from the voluntary termination of a clearing agreement.

(FINRA Regulatory Notices 08-46 and 13-44)

(c)(2)(iv)(E) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/022 Introducing Firms with No Proprietary Trading Accounts

If an introducing firm does not have a proprietary trading account, it still must enter into a PAIB agreement with its clearing firm in order to treat its deposit at the clearing firm as a good asset for capital purposes.

(SEC Staff to NYSE) (No.99-6, May 1999)

/023 Introducing Firm's Net Equity

If a clearing firm will not enter into a PAIB Agreement, the introducing broker would need to take a non-allowable capital charge only on its net equity at the clearing firm.

(SEC Staff to NYSE) (No. 99-6, May 1999)

/024 Proprietary Accounts of Other Broker-Dealers

The PAIB letter applies to all broker-dealers with cash and/or securities, including exempt securities, on deposit in a proprietary account at another broker-dealer.

(SEC Staff to NYSE) (No. 99-6, May 1999)
(SEC Staff to NYSE) (No. 00-6, September 2000)

/025 U.S. Broker-Dealer's Deposit at Foreign Entity

A U.S. broker-dealer's deposit held by a foreign entity is not affected by the PAIB letter. However, the deposit would be subject to the net capital treatment as is normally accorded to such deposits.

(SEC Staff to NYSE) (No. 99-6, May 1999)

/026 DVP/RVP Accounts

Deliver-versus-payment (DVP) and Receive-versus-payment (RVP) accounts of broker-dealers need not be contemplated in the PAIB Reserve Formula calculation.

(SEC Staff to NYSE) (No. 00-6, September 2000)

(c)(2)(iv)(E) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/027 Piggyback Arrangements

Piggyback carrying arrangements generally involve two introducing firms and one carrying and clearing firm, and in this arrangement Introducer 1 does not have a clearing arrangement with the carrying and clearing firm since Introducer 2 acts as intermediate. The proprietary trading assets of Introducer 1, if properly identified on the books of the carrying and clearing firm, are included in the PAIB computation made by the carrying and clearing firm. Therefore, Introducer 1 should receive a PAIB agreement directly from the carrying and clearing firm.

However, the clearing deposits of Introducer 1 are deemed allowable assets for net capital only if the following conditions are met:

1. Introducer 2 designates the cash and/or securities representing the clearing deposits of Introducer 1 to be placed into a separate account at the carrying and clearing firm in the name of "Introducer 2 FBO Introducer 1". Or Introducer 2 can elect to send a notification to the carrying and clearing firm advising the firm that the cash and/or securities representing the deposits of Introducer 1 have been placed into the deposit account of Introducer 2. If either one of these options is not done, then Introducer 2 must do its own PAIB computation and include the deposit of Introducer 1. In addition, Introducer 2 may have a higher net capital requirement as a clearing firm.

2. The carrying and clearing firm sends a PAIB agreement to Introducer 2, who in turn, must send the agreement to Introducer 1 if Introducer 2 has complied with either of the above two options.

3. Introducer 2 must send a letter to Introducer 1 advising the introducing firm that its deposits are being sent to the carrying and clearing firm which is including them in its PAIB calculation.

(SEC Staff to NYSE) (No. 00-6, September 2000)

(c)(2)(iv)(E) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/028 Aged Commissions Receivables

An introducing broker's commissions' receivables, which are over 30 days old, may be considered allowable assets for net capital purposes, provided:

1. The carrying and clearing firm credits these commissions to a proprietary securities account of the introducing broker that is included in the PAIB Reserve computation, and

2. The carrying and clearing firm notifies the introducing broker in writing that the commissions were credited to the proprietary account.

(SEC Staff to NYSE) (No. 00-6, September 2000)

/029 Sole Proprietor Joint Securities Account With Spouse

See interpretation 15c3-1(a)(2)(vi)(B)/04.

/030 Sole Proprietor IRA, Keogh or ERISA Accounts

See interpretation 15c3-1(a)(2)(vi)(B)/05.

/03 Prepaid Fails To Receive

Where advance payments are made for securities which a broker-dealer is failing to receive, the securities are considered unsecured short positions and accordingly their market value is deducted immediately. However, no deduction is required if the selling broker-dealer carries the securities in an account titled "Special Custody Account for Accommodation Transfers for the Exclusive Benefit of Customers of (name of purchasing broker-dealer)". Also, see interpretation 15c3-3(Exhibit A - Item 4)/02.

(SEC Letter to Midwest Stock Exchange, Inc., August 3, 1976)
(No. 77-2, June 1977)

(c)(2)(iv)(E) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/04 Unsecured Receivables and Payables With the Same Party

Undisputed unsecured monies receivable from and payable to the same party in connection with underwritings, syndicates, private placements, joint trading accounts, investment banking and similar services, as well as good faith deposits related to unsuccessful syndicate bids may be netted to determine the net credit balance includable in aggregate indebtedness subparagraph (c)(l) or net debit balance treated as unallowable under subparagraph (c)(2)(iv)(E).

(SEC Staff to NYSE) (No. 82-2, April 1982)

/05 Correspondent Account Balances - Rescinded (No. 99-6, May 1999)

/06 Eurodollar and Other Offshore Deposits – Rescinded (No. 06-5, June 2006)

/061 Offshore Demand Deposits and Time Deposits

An offshore demand deposit or time deposit will have no value for net capital purposes unless it is deposited with a non-affiliated financial institution that meets the following conditions:

- The non-affiliated financial institution issues certificates of deposit, bank deposit notes, bankers acceptances or bills of exchange that are rated investment grade by at least two NRSROs, has shareholders' equity of at least US $1 billion and its capital is subject to supervision by an authority of a sovereign national government where a major money market is located; or

- The non-affiliated financial institution has shareholders' equity of at least US $1.5 billion and its capital is subject to supervision by an authority of a sovereign national government where a major money market is located; and

- The deposit must be redeemable, without restrictions, at a major money market.

See interpretation 15c3-1(c)(2)(vii)/09 for a list of major money markets.

(SEC Staff to NYSE) (No. 06-5, June 2006)

(c)(2)(iv)(E) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/062 Cayman Island Branches of Foreign Banks

Negotiable certificates of deposits ("CDs") that are issued by the branches of foreign banks located in the Cayman Island may be treated as allowable assets for the purpose of SEA Rule 15c3-1 if the following conditions are satisfied:

1. The CDs are rated in one of the three highest categories for CDs by at least two nationally recognized statistical ratings organizations;

2. The CDs are issued by Banks with shareholder equity in excess of $500 million which are subject to supervision by authorities of a sovereign national government other than the Cayman Islands;

3. The CDs are unconditionally guaranteed by a Bank's New York branch or agency. Each Guarantor is regulated and supervised by both the Superintendent of Banks of the State of New York and the Board of Governors of the Federal Reserve System. The CD and the Guarantee may not be transferred independently of each other. The Guarantee unconditionally guarantees payment of all amounts payable under the CD, without any requirement that the holder, first proceed against the Cayman Branch. The guarantee by the New York branch of the bank must be in writing, signed by legal counsel of the bank and maintained in the broker-dealer's records.

4. The CDs are payable (a) to bearer upon presentation by the Bank in Tokyo, Japan or London, England, as well as in the Cayman Islands; or (b) payable under the Guarantee by the New York branch or agency in New York; and

5. The CDs are in denominations of at least $100,000, and are issued on an interest bearing or discount basis with maturities of seven days to one year.

(SEC Letter to Seward & Kissel, February 24, 1992)
(No. 92-7, May 1992) (No. 06-5, June 2006)

/07 Custodial Fees Receivable for IRA Custody Accounts

Accrued custodial fees receivable for IRA custody accounts need not be deducted provided the individual fees are secured by and chargeable to each related individual IRA custody account.

(SEC Staff to NYSE) (No. 90-11, December 1990)

/08 Unendorsed Stock Certificates

See interpretation 15c3-1(c)(2)(iv)(B)/06.

(c)(2)(iv)(E) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/09 Collateral to Receivable Must be in Physical Possession or Control

Under the law of a particular state, it may be possible to establish a "security interest" in collateral for a receivable without obtaining physical possession or control of the collateral and be "secured" under the state law.

This subparagraph requires that the receivable be considered unsecured and deducted due to the lack of physical possession or control of the collateral.

(SEC Letter to CBOE, August 21, 1981) (No. 88-14, August 1988)

/10 Letter of Credit Not Acceptable as Collateral

Any asset that relies upon a letter of credit as its collateral must be considered unsecured and deducted under the provisions of this subparagraph.

(SEC Letter to NASD, August 17, 1981) (No. 88-14, August 1988)

/11 Foreign Issued, Foreign Settled Securities - Haircut Alternative to Buy-In for Aged Items

Broker-dealers may, in lieu of the buy-in requirements of paragraph (d)(2) (fail to receives over 30 calendar days old) and of paragraph (m) (securities due from customer on long sales over 10 days old) of SEA Rule 15c3-3, apply alternative procedures regarding foreign issued, foreign settled securities.

In the event such alternative procedures are used (see interpretation 15c3-3(d)(2)/01), the following treatment pursuant to SEA Rule 15c3-1 shall apply:

- Thirty days after settlement date, a proprietary haircut charge shall be taken for foreign issued, foreign settled securities failed to receive or on those due from a customer, reduced by the equity (or increased by the deficit) in the transaction on a mark-to-market basis. In those countries where settlement is on a seller' option basis rather that on a customary settlement cycle, the settlement date for purposes of this alternative will be considered to be a day not more than 30 days from the trade date.

Broker-dealers electing to use this alternative procedure should be aware that the deficit deductions provided under SEA Rule 15c3-1 paragraph (c)(2)(iv)(E) and (c)(2)(ix) (i.e., fails to receive aged over 30 calendar days and haircuts on fails to deliver outstanding 5 business days or longer) will continue to be based on a date which is 5 business days after trade date.

(SEC Letter to SIA, June 16, 1988) (No. 88-14, August 1988)

(c)(2)(iv)(E) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/12 NSCC's RECAPS Program

Broker-dealers participating in the NSCC's Reconfirmation and Pricing Service (RECAPS) Program may treat the RECAPS settlement date and price as the date of the fail for aging and contract price purposes.

(SEC Letter to NSCC, June 11, 1987) (No. 89-6, June 1989)

/13 Foreign Issued, Foreign Settled Securities Fail to Receive - Deficit Deduction Alternative

Broker-dealers may, in lieu of the treatment required by this provision (c)(2)(iv)(E) to deduct deficits for aged fail to receive of foreign issued, foreign settled securities, apply alternative procedures.

In the event such alternative procedures are elected, the following treatment shall apply:

1. Thirty calendar days after settlement date (in accordance with the current foreign settlement cycle) or forty-five calendar days after trade date, whichever comes first, the broker-dealer shall take a charge equal to the amount by which the market value of the foreign issued, foreign settled securities failed to receive exceeds the contract value of such securities failed to receive (the "deficit"). In those countries where settlement is on a seller's option basis, the settlement date for purposes of this computation will be considered to be a day not more than thirty calendar days from trade date;

2. During the period from settlement date until the aged failed to receive charge is required to be taken, the broker-dealer will take a concentration charge on a mark-to-market basis equal to 100 percent of the excess of all failed to receive deficits with a single counterparty in excess of ten percent of the broker-dealer's tentative net capital;

3. In determining a required deduction, the broker-dealer may reduce such deficit by any margin or other deposit held by the broker-dealer in connection with such transaction with the same party and any net equity in failed to deliver transactions not older than five business days past settlement date and/or the net equity in all other failed to receive transactions with the same party;

4. In determining a required deduction, the broker-dealer may reduce such deficit by any margin calls issued by the broker-dealer, outstanding not more than two business days. A broker-dealer may take advantage of this provision regarding margin calls only if it has a written agreement with the customer regarding the issuance and satisfaction of margin calls;

(c)(2)(iv)(E) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/13 Foreign Issued, Foreign Settled Securities Fail to Receive - Deficit Deduction Alternative (continued)

5. The broker-dealer shall file a written notice with the national securities exchange or registered national securities association which is its designated examining authority of its intention to apply this alternative treatment in lieu of the requirements of subparagraph (c)(2)(iv)(E) of SEA Rule 15c3-1;

6. The broker-dealer will maintain in its records a schedule of the current settlement cycle of each country in which it trades; and

7. The broker-dealer shall maintain and preserve separate records, in whatever form appropriate, detailing, by country, the total number of failed to receive and failed to deliver contracts, and the total contractual value of those contracts and transactions.

(SEC Letter to Securities Industry Association, June 5, 1989)
(No. 89-9, July 1989)

/14 CNS System Fails to Receive - Not Aged

Fails to receive from a registered clearing agency or a registered securities depository operating under a continuous net settlement system which is marked to market daily shall be considered as continually current and is not subject to the aging provision of subparagraph (c)(2)(iv)(E).

(SEC Staff to NYSE) (No. 90-11, December 1990)

(c)(2)(iv)(E) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/15 Deferred "Soft Dollar" Research Expenses

Section 28(e) of the Securities Exchange Act of 1934 provides a safe harbor to investment managers who use the commission dollars of their advised accounts to obtain investment research and brokerage services ("soft dollar" research) by permitting such persons, under certain circumstances, to "pay up" for such services received from broker-dealers.

Deferred expenses relating to "soft dollar" research arrangements and resulting from the payment of third party research expenses for customers prior to receiving compensating commission revenues, must be deducted as a non-allowable asset in computing net capital on a customer-by-customer basis and may not be netted with accrued "soft dollar" liabilities unless both are with the same customer.

Deferred "soft dollar" research expenses are to be determined in accordance with generally accepted accounting principles including the proper matching of revenues and expenses during each accounting period. The possibility of inflated revenues, accelerated expense recognition and the propriety of accruals associated with "soft dollar" arrangements should be of particular concern. (Also see interpretation 15c3-1(c)(1)/13.)

Appropriate accounting records which show the research obligations and expenses should be maintained for each customer having a "soft dollar" research arrangement and covered by this interpretation.

(SEC Staff to NYSE, August 8, 1991) (No. 91-13, August 1991)

/16 Compensating Balances Deposited With Others

Compensating balances or other assets (e.g. Cash, CDs, time deposits, commercial paper, etc.) deposited with or held by subordinated lenders, or lenders under a NYSE Rule 328 fixed asset agreement, should be treated as assets not readily convertible to cash. These balances should be treated as non-allowable assets up to the value of the liability to the related party.

(SEC Staff to NYSE) (No. 92-4, January 1992)

(c)(2)(iv)(E) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/160 Proceeds of a Subordination Used to Purchase Certificates of Deposit of Lending Bank

When a broker-dealer enters into a subordinated loan with a bank and uses the proceeds of the loan to purchase certificates of deposit issued by the lender or an affiliate of the lender, the lender is in possession (although for the account of the broker-dealer) of the subordinated funds. Since the funds that were the subject of the loan have been returned to the lender, the loan is not a satisfactory subordination under SEA Rule 15c3-1 Appendix D.

(SEC Staff of DMR to NASD, June 1983)

/17 Petty Cash

Petty cash shall be considered a non-allowable asset in the computation of net capital.

(SEC Staff to NYSE) (No. 04-3, June 2004)

/18 Fixed Income Clearing Corporation (FICC) – Fails to Receive Not Aged

Government securities broker-dealers that are FICC Netting Members need not age open fails to receive and comprehend deductions under the provisions of SEA Rule 15c3-1(c)(2)(iv)(E), for trades processed through FICC's Netting System which operates on a continuous settlement basis that marks to the market daily.

(Department of the Treasury Letter to GSCC, November 22, 1989)
(SEC Staff to NYSE) (No. 05-8, April 2005)

/19 Financial Advisory Fees Receivable from a Municipality

Financial advisory fees receivable, which represent income earned for providing assistance to municipalities, in connection with the issuance of bonds, are non-allowable assets pursuant to SEA Rule 15c3-1(c)(2)(iv)(E) for net capital purposes.

(Letter from SEC Staff of DMR to M.E. Allison & Co., Inc. June 11, 1987)

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(c)(2)(iv)(F) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

(1) For purposes of this paragraph:

(i) The term "reverse repurchase agreement deficit" shall mean the difference between the contract price for resale of the securities under a reverse repurchase agreement and the market value of those securities (if less than the contract price).

(ii) The term "repurchase agreement deficit" shall mean the difference between the market value of securities subject to the repurchase agreement and the contract price for repurchase of the securities (if less than the market value of the securities).

(iii) As used in paragraph (F)(1), the term "contract price" shall include accrued interest.

(iv) Reverse repurchase agreement deficits and the repurchase agreement deficits where the counterparty is the Federal Reserve Bank of New York shall be disregarded.

(c)(2)(iv)(F) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

(2)(i) In the case of a reverse repurchase agreement, the deduction shall be equal to the reverse repurchase agreement deficit.

/01 Reverse Repurchase Agreements Collateral

When a broker-dealer enters into reverse repurchase agreement transaction for its own account, the securities subject to the agreement must be in the possession or control of the broker-dealer and outside of the control of the counterparty in order to treat the contract as an allowable asset for net capital purposes. Securities held by the counterparty in a Special Reserve Bank Account to satisfy a reserve requirement under SEA Rule 15c3-3 would be considered acceptable collateral in treating the reverse repurchase contact as an allowable asset. (Also, see interpretation 15c3-1(c)(2)(iv)(E)/09.)

(SEC Letter to CBOE, August 21, 1981) (No. 92-4, January 1992)

/011 Collateral Consisting of Book-Entry Securities Segregated in Affiliate's Customer Account at the Federal Reserve Bank

If a broker-dealer enters into a reverse repurchase agreement transaction with a bank affiliate, and if the affiliate maintains possession of the book-entry exempt securities collateralizing the transaction, even though segregated in the affiliate's customer account at the Federal Reserve Bank and identified as belonging to the broker-dealer on the books of the affiliate, it is a non-allowable asset for purposes of SEA Rule 15c3-1.

(SEC Staff of DMR to NASD, June 1987)

(ii) In determining the required deductions under subsection (F)(2)(i), the broker or dealer may reduce the reverse repurchase agreement deficit by:

(A) any margin or other deposits held by the broker or dealer on account of the reverse repurchase agreement;

(B) any excess market value of the securities over the contract price for resale of those securities under any other reverse repurchase agreement with the same party;

(C) the difference between the contract price for resale and the market value of securities subject to repurchase agreements with the same party (if the market value of those securities is less than the contract price); and

(D) calls for margin, marks to the market, or other required deposits which are outstanding one business day or less.

(c)(2)(iv)(F) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

(3)(i) In the case of the repurchase agreements, the deduction shall be:

(A) The excess of the repurchase agreement deficit over 5 percent of the contract price for resale of United States Treasury Bills, Notes and Bonds, 10 percent of the contract price for the resale of securities issued or guaranteed as to principal or interest by an agency of the United States or mortgage related securities as defined in Section 3(a)(41) of the Act and 20 percent of the contract price for the resale of other securities and;

(B) The excess of the aggregate repurchase agreement deficits with any one party over 25 percent of the broker or dealer's net capital before the application of paragraph (c)(2)(vi) of this section (less any deduction taken with respect to repurchase agreements with that party under paragraph (c)(2)(iv)(F)(3)(i)(A) of this section), or, if greater;

(C) The excess of the aggregate repurchase agreement deficits over 300 percent of the broker's or dealer's net capital before the application of paragraph (c)(2)(vi) of this section.

(ii) In determining the required deduction under subsection (F)(3)(i), the broker or dealer may reduce a repurchase agreement deficit by:

(A) Any margin or other deposits held by the broker or dealer on account of a reverse repurchase agreement with the same party to the extent not otherwise used to reduce a reverse repurchase deficit;

(B) The difference between the contract price and the market value of securities subject to other repurchase agreements with the same party (if the market value of those securities is less than the contract price) not otherwise used to reduce a reverse repurchase agreement deficit; and

(C) Calls for margin, marks to the market, or other required deposits which are outstanding one business day or less to the extent not otherwise used to reduce a reverse repurchase agreement deficit.

(c)(2)(iv)(F)(3)(ii) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/01 Reverse Repurchase and Repurchase Agreements - Application

Net capital treatments applicable to government securities subject to reverse repurchase, repurchase and matched repurchase agreements are interpreted to apply also to money market instruments not subject to Regulation T.

On a reverse repurchase agreement, the greater of any cash margin deficiency (based on the margin requirement of the examining authority) or the charge required by this paragraph (c)(2)(iv)(F) shall be deducted. (See interpretation 15c3-1(c)(2)(xii)/01)

Interest receivable on a reverse repurchase agreement and interest payable on a repurchase agreement are to be treated as part of the contracted receivable or payable.

The reverse repurchase side of a matched repurchase agreement is treated as described in paragraph (c)(2)(iv)(F)(2). The repurchase side is a financing arrangement comparable to a bank loan.

The deficit, if any, applicable to securities subject to repurchase agreements is treated as described in paragraph (c)(2)(F)(3).

If a broker-dealer has reason to believe a repurchase agreement transaction or a reverse repurchase agreement transaction may not be honored by the party on the other side of such transaction, the transaction will be treated as a proprietary commitment for purposes of computing net capital but such treatment cannot operate to increase net capital.

(SEC Letters to Stuart Brothers, March 29, August 25 and November 4, 1976)
(SEC Staff to NYSE) (No. 83-2, April 1983) (No. 88-11, June 1988)

/011 Overnight Reverse Repurchase and Repurchase Deficit Charges

Broker-dealers shall not be subject to capital charges on overnight reverse repurchase or repurchase agreement contracts that are in deficit, provided that at the time of origination the contract was properly collateralized.

If the contract that is in deficit is rolled over without additional funds or securities received from the counterparty, the firm would be subject to a capital charge under paragraph (c)(2)(iv)(F)(2)(i).

(SEC Staff to NYSE) (No. 96-4, November 1996)

(c)(2)(iv)(F)(3)(ii) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/02 Accrued Coupon Interest

Accrued coupon interest on reverse repurchase and repurchase securities can be added to the market values in determining the deficit charges and additional capital requirements if applicable.

(SEC to NYSE, July, 1992) (No. 92-12, December 1992)

/03 Buy-Sell Transactions

Buy-sell (sell-buy) transactions are to be considered as reverse repurchase and repurchase positions and all charges for reverse repurchase and repurchase positions under paragraph (c)(2)(iv)(F) shall apply. All open buy-sell balances must be recorded to the broker-dealer's books and records as required by SEA Rules 17a-3 and 17a-4. A broker-dealer entering into a sell-buy (repurchase) hold in custody transaction must obtain a written agreement from the counterparty of the transaction as required by SEA Rule 15c3-3(b)(4).

(SEC Staff to NYSE) (No. 96-4, November 1996)

/04 Repurchase Transactions to Maturity – Rescinded (FINRA Regulatory Notice 13-44)

/05 GSCC's Netting System and Repo and Reserve Repo Deficits

GSCC Netting Members need not deduct from their net worth repo and reverse repo deficits, outstanding one business day or less, arising from repo and reserve repo agreements that are netted and guaranteed by GSCC as part of GSCC's netting system.

(SEC Letter to GSCC, April 1998) (No. 98-9, July 1998)

(c)(2)(iv)(F)(3)(ii) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

/06 Non-Marketable Securities Collateralizing Reverse Repurchase Transactions

Securities that are non-marketable, as defined in SEA Rule 15c3-1, and which have been received as collateral to a reverse repurchase transaction, where cash or other marketable securities, as defined in SEA Rule 15c3-1, have been pledged, shall be subject to a 100% net capital charge if they allocate to a box location for more than two (2) business days.

Where the securities received as collateral to a reverse repurchase transaction are non-marketable, as defined in SEA Rule 15c3-1, but margin has been collected by the broker-dealer, the applicable net capital charge would be the cash receivable or market value of the securities pledged, less the margin collected.

Also, see SEA Rule 15c3-1(c)(2)(iv)(B)/092 (Non-Marketable Securities Collateralizing Purpose Borrow Transactions).

(SEC Staff to NYSE) (No. 03-3, April 2003)
(SEC Staff to NYSE) (No. 06-5, June 2006)

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(c)(2)(iv) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

(G) SECURITIES BORROWED

1% of the market value of securities borrowed collateralized by an irrevocable letter of credit.

/01 Deduction 1 percent charge

The deduction of l% of the market value of securities borrowed is applied regardless of whether the letter of credit is secured or unsecured.

(SEC Staff to NYSE) (No. 83-2, April 1983)

/02 Deduction of 1 percent for Securities Borrowed through Euroclear System

The 1% deduction applies to the market value of securities borrowed through the Euroclear System which are collateralized by an irrevocable guarantee constituting the legal and functional equivalent of an irrevocable letter of credit.

(SEC Staff to NYSE) (No. 93-6, November 1993)

(c)(2)(iv) DEFINITIONS; NET CAPITAL: ASSETS NOT READILY CONVERTIBLE INTO CASH (continued)

(H) Any receivable from an affiliate of the broker or dealer (not otherwise deducted from net worth) and the market value of any collateral given to an affiliate (not otherwise deducted from net worth) to secure a liability over the amount of the liability of the broker or dealer unless the books and records of the affiliate are made available for examination when requested by the representatives of the Commission or the Examining Authority for the broker or dealer in order to demonstrate the validity of the receivable or payable. The provisions of this subsection shall not apply where the affiliate is a registered broker or dealer, registered government securities broker or dealer or bank as defined in Section 3(a)(6) of the Act or insurance company as defined in Section 3(a)(19) of the Act or investment company registered under the Investment Company Act of 1940 or federally insured savings and loan association or futures commission merchant registered pursuant to the Commodity Exchange Act.

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(c)(2) DEFINITIONS; NET CAPITAL (continued)

(v) SECURITIES DIFFERENCES

(A) Deducting the market value of all short securities differences (which shall include securities positions reflected on the securities record which are not susceptible to either count or confirmation) unresolved after discovery in accordance with the following schedule:

Percentage of Market Value of Short Securities Differences	Number of Business Days After Discovery
25%	7
50%	14
75%	21
100%	28

/01 Quarterly Security Counts Under SEA Rule 17a-13

This rule requires quarterly security counts to be made by most broker-dealers. In a letter to the Exchange, the SEC highlighted its position that where outside auditors have agreed to perform a security count for a broker-dealer, it does not relieve the broker-dealer of his obligation to inquire promptly about the results of the count because auditors perform this service for their clients only in satisfaction of the broker-dealer's obligation to comply. The letter went on to state that all unresolved security count differences should be entered in the broker-dealer's books of account and records within seven business days of the date of the security count. The graduated deductions (per subparagraph (c)(2)(v)) in computing Net Capital commence on the seventh day. Obviously any delay in inquiring about the results of the count reduces the amount of time available to resolve differences before they impact Net Capital.

(SEC Letter to NYSE, July 16, 1979 and SEC Release No. 34-18417, January 13, 1982)
(No. 83-2, April 1983)

(c)(2)(v) DEFINITIONS; NET CAPITAL: SECURITIES DIFFERENCES (continued)

(B) Deducting the market value of any long securities differences, where such securities have been sold by the broker or dealer before they are adequately resolved, less any reserves established therefore;

/01 Long Differences - Resolution

Once funds or securities are forwarded to an escheat (abandoned property) fund, the long difference is deemed to be resolved and its market value need not be deducted from net worth, even if the item has been sold.

(SEC Staff to NYSE)

(C) The designated examining authority for a broker or dealer may extend the periods in (A) above for up to 10 business days if it finds that exceptional circumstances warrant an extension.

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(c)(2) DEFINITIONS; NET CAPITAL (continued)

(vi) SECURITIES HAIRCUTS

Deducting the percentages specified in paragraphs (c)(2)(vi)(A) through (M) of this section (or the deductions prescribed for securities positions set forth in Appendix (A), § 240.15c3-1a) of the market value of all securities, money market instruments or options in the proprietary or other accounts of the broker or dealer.

/01 Haircuts Application

Where a broker-dealer has both regular-way settled positions and open contractual commitment positions, the total in each category for actual and contractual are added together to determine the combined amounts to which haircuts are to be applied.

Example:

Common Stocks	Actual	Contractual Market Value	Contractual Contract Value
Long	$1,600,000	$ 400,000	$ 400,000
Short	$ 500,000	100,000	110,000
	Combined		
Long	$2,000,000		
Short	$ 600,000		

Charge

	Longs (Actual) - 15%	$ 240,000
**	Longs (Contractual) - 30%	$ 120,000
	Shorts - 15% of (short value less 25% of long value)	$ 15,000
	reduced by $10,000 profit on contractuals *	$ (10,000)
	Total Charge	$ 365,000

* A loss on a contractual commitment should be deducted in arriving at net worth.

** Contractual commitment charges vary for certain securities, see SEA Rule 15c3-1 (c)(2)(viii)(A) to (C) for further information.

When-issued and delayed delivery transactions that will be consummated in 30 days or less are treated as actual without any restrictions.

(SEC Staff to NYSE) (No. 77-2, June 1977)

(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/02 Joint Trading and Investment Accounts

A broker-dealer is required to include as a proprietary commitment its portion of a joint account in which it is a participant, whether or not it carries the account.

In the event the broker-dealer is carrying the entire joint account, the other participants are to be considered as "non-customers" or "customers" as appropriate, since they are dealing for their own accounts. In the event such an account is in deficit, in effect it is to be considered as a proprietary account in the computation of net capital. If there is an equity in the account, the other participants' portion must be sufficient to meet the margin requirements of the designated examining authority. If not, the deficiency is charged pursuant to paragraph (c)(2)(xii).

(SEC Staff to NYSE)

/03 Accrued Interest

The accrued interest on proprietary positions is not subject to haircuts.

(SEC Staff to NYSE)

/031 Accrued Interest Receivable on Proprietary Municipal Bonds

A broker-dealer that accrues interest receivable on a monthly basis for municipal bonds with scheduled coupon payable dates may include the receivable as an allowable asset for purposes of SEA Rule 15c3-1(c)(2)(iv)(C), provided that:

1. No interest payments are in default;

2. The issue does not trade flat; and

3. The interest receivable is not outstanding more than 30 days from the end of the calendar month in which the subsequent coupon payable date occurred.

(SEC Staff of DMR to NASD, November 1982)

(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/032 Book-Entry Securities Held by an Affiliate

A broker-dealer may treat proprietary exempt securities as allowable assets in the computation of net capital when such securities are issued in book-entry form and are held by an affiliate in the affiliates account at the Federal Reserve Bank, provided:

- The securities are fully paid for by the broker-dealer.
- The securities are not subject to any liens by the affiliate.
- The securities are segregated in the affiliates customer account at the Federal Reserve Bank.
- The affiliate maintains books and records clearly showing that the broker-dealer is the owner of said securities and is entitled to all principal and interest on demand.

(SEC Staff of DMR to NASD, June 1987)

(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/04 Rating Organizations; Nationally Recognized - Rescinded (No. 04-3, June 2004)

/041 Nationally Recognized Statistical Rating Organizations ("NRSROs") - Rescinded (FINRA Regulatory Notice 14-38)

/05 Stripped Bonds and Coupons

Where there is a ready market for bonds from which the coupons have been stripped the market value may be included in computing net capital with haircuts taken under the appropriate subsections of SEA Rule 15c3-1(c)(2)(iv)(A), (F) or (J) provided the stripped bonds meet all the qualification requirements in the respective categories.

Where there is a ready market for the individual coupons or sheets of coupons which have been stripped from bonds, the market value of such coupons may be included in computing net capital with haircuts taken under the appropriate subsection of SEA Rule 15c3-1(c)(2)(vi)(A), (F) or (J) wherein the underlying bond would be appropriately classified provided all the qualification requirements in the respective categories are met. Maturities can be based on coupon due date for individual coupons or the due date of the last coupon for sheets of coupons. Ready market is determined as under SEA Rule 15c3-1(c)(11).

(SEC Staff to NYSE) (No. 83-2, April 1983)

(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/06 Intercompany Securities Holding – Rescinded (No. 05-2, January 2005)

/061 Intercompany Securities Holding – Redeemable Debt Instruments

A broker-dealer holding proprietary positions in Certificates of Deposit, Bankers Acceptances, Commercial Paper, Corporate Non-Convertible Bonds, Trust Preferred Securities or similar instruments ("debt instruments"), which are redeemable debt and issued by a parent or an affiliated entity, will receive no net capital value for such positions unless the following conditions are met:

1. The broker-dealer must maintain a liability or financing loan payable to the parent or affiliated entity on its books equal to the market value of the debt instruments that can be turned into equity capital (it will also be acceptable for a broker-dealer to have a liability or financing loan with the parent offset by debt instruments issued by an affiliated entity); and

2. The parent or affiliated entity agrees in writing that it will forgive its liability or financing loan by making an equity contribution in an amount equal to the market value of any debt instruments which are not redeemed when presented for payment; and

3. The ownership of the debt instruments must be transferable to the parent or affiliated entity in complete satisfaction of the liability or financing loan should the parent or affiliated entity become insolvent; and

4. The agreement must provide that the liability or loans will not be paid or mature prior to the earlier of either:

    a) The sale of the debt instruments by the affiliated broker-dealer, or

    b) The maturity or early redemption of the debt instruments.

However, if the parent or affiliated entity has not provided a contingent equity contribution to the broker-dealer as outlined above, net capital value will be allowed for proprietary positions in redeemable debt instruments for no more than two business days, only if the securities purchased or received were related to the underwriting activity of the broker-dealer.

Proprietary positions in redeemable debt instruments that meet the conditions of this interpretation must still be subject to the haircut deduction required under SEA Rule 15c3-1 subparagraphs (c)(2)(vi) and (c)(2)(vii) for net capital purposes.

(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/061 Intercompany Securities Holding – Redeemable Debt Instruments (continued)

Proprietary positions in asset-backed securities and trust assets issued by a parent or an affiliated entity are not subject to the provisions of this interpretation and should be treated in accordance with the marketability requirements of SEA Rule 15c3-1 for net capital purposes.

Proprietary positions in common stock, preferred stock and convertible bonds issued by a parent or an affiliated entity do not fall within the provisions of this interpretation and should be treated as non-marketable securities for net capital purposes.

(SEC Letter to White & Case, April 14, 1989) (No. 89-9, July 1989)
(SEC Staff to NYSE) (No. 05-2, January 2005)
(SEC Staff to NYSE) (No. 05-8, April 2005)

/07 Foreign Securities

See interpretations 15c3-1(c)(2)(vii)/08 and /09 for marketability of certain foreign and domestic debt, banker's acceptances and money market instruments.

/08 Haircut Deduction on a Foreign Currency Balance

A foreign currency balance shall be treated as “inventory” and subject to the applicable haircut deduction to cover any currency risk that has not been eliminated by an offsetting balance, security position, futures contract or contractual commitment in the same foreign currency.

The haircut deduction applicable on a foreign currency balance is as follow:

A 6% haircut deduction shall be applied on the US dollar equivalent amount of a foreign currency net debit or credit balance in any of the five major foreign currencies (Euro, British pound, Swiss franc, Canadian dollar and Japanese yen).

A 20% haircut deduction shall be applied on the US dollar equivalent amount of a foreign currency net debit or credit balance in all other foreign currencies.

(SEC Staff to NYSE) (No. 90-11, December 1990)
(SEC Staff to FINRA) (FINRA Regulatory Notice 13-44)

(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/09 Haircut Deductions on Inventory Positions Denominated in a Foreign Currency

An additional currency risk haircut deduction of 6% must be applied on inventory positions denominated in any of the five major foreign currencies (Euro, British pound, Swiss franc, Canadian dollar and Japanese yen). An additional currency risk haircut deduction of 20% must be applied on inventory positions denominated in all other foreign currencies.

In determining the additional currency risk haircut deductions to be applied, inventory positions denominated in a foreign currency may be offset by a balance, security position, futures contract or contractual commitment in the same foreign currency.

However, no offsetting is permitted for purposes of computing the currency risk haircut deductions required hereunder on any inventory positions denominated in a foreign currency that receive hedging treatment under paragraph (c)(2)(vi)(A) or (c)(2)(vi)(F) of SEA Rule 15c3-1.

Note: The above currency risk haircut deductions are additive to any haircut deductions applicable to the underlying inventory positions denominated in a foreign currency, as provided in paragraph (c)(2)(vi) of SEA Rule 15c3-1.

(SEC Staff to NYSE) (No.92-12, December 1992)
(SEC Staff to FINRA) (FINRA Regulatory Notice 13-44)

/10 Securities Deposited by U.S. Subsidiaries with Foreign Parent

Securities deposited with a foreign parent company are deemed "not readily convertible to cash" and subject to a 100% deduction from net worth.

A broker-dealer who is a subsidiary of a foreign broker-dealer parent and deposits securities with its parent, may allow net capital value for those securities under the following conditions.

1. The proprietary securities must be registered in the subsidiary's name;

2. The proprietary securities must be physically segregated in the foreign parent's vault abroad;

3. The foreign parent must submit a letter to the subsidiary which is provided to its Designated Examining Authority which will assure that such proprietary securities will not be subject to any encumbrances or liens by the foreign parent;

(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/10 Securities Deposited by U.S. Subsidiaries with Foreign Parent (continued)

4. Each firm will provide a letter to its Designated Examining Authority from the subsidiary's fidelity bond company which verifies that coverage extends to the proprietary securities in the custody of the foreign parent, or the foreign parent's insurance/bonding company submits a letter which provides equivalent coverage;

5. The amount of the subsidiary's proprietary securities in the custody of the foreign parent does not exceed the subsidiary's tentative net capital for more than three (3) consecutive business days;

6. The subsidiary must be treated by the parent the same as any other customer of the foreign parent for such purposes as bankruptcy of the parent under the laws of the foreign parents country;

7. In complying with SEA Rule 17a-5, the subsidiary's deposited proprietary securities must be inspected quarterly by parent company employees and the results of those inspections must be reported within 15 days of completion of the inspections to the independent public accountant for the parent for review.

8. The foreign parent must remain in compliance with the foreign regulatory net capital provisions; and

9. The independent public accountant for the subsidiary considers items 1, 2, 5 and 7 above, in connection with the supplemental schedule on net capital requirement by SEA Rule 17a-5(d).

(SEC Letter to NYSE, July 30, 1986) (No. 86-9, August 1986)
(SEC Staff to NYSE) (No. 93-6, November 1993)

/101 Securities Deposited by U.S. Subsidiaries with Foreign Parent for Two Business Days or Less

Proprietary securities on deposit at a foreign parent of a U.S. broker-dealer subsidiary that results from clearance activities and that represents assets utilized for regulatory capital of the subsidiary broker dealer would not be subject to the provisions of interpretation 15c3-1(c)(2)(vi)/10 (Securities Deposited by U.S. Subsidiaries with Foreign Parent), if maintained at the foreign parent for two business days or less. A daily determination of the aging of the securities needs to be recorded by the U.S. broker-dealer subsidiary to avail themselves of the two-day relief period.

(SEC Staff to NYSE) (No. 98-5, May 1998)

/11 Removed (No. 97-5, September 1997)

(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/12 Bona Fide Arbitrage - paragraphs (c)(2)(vi)(A) through (H)

A bona fide arbitrage treatment can also be applied to any security position in paragraphs (c)(2)(vi) that is convertible into or exchangeable within 90 days subject to no conditions other than the payment of money for the same security that the firm is short. Securities which cannot be publicly offered or sold because of statutory, regulatory or contractual agreements or other restrictions are not considered the same as unrestricted securities and cannot be used for this treatment.

(SEC Staff to NYSE) (No. 95-3, May 1995)

/13 Error Transactions of Floor Brokers – (Rescinded, No. 03-2, March 2003)

/14 Error Transactions of Floor Brokers

When a broker-dealer, which is primarily in the business of acting as a floor broker, makes an error in executing a transaction, which is done as a floor broker for another broker, no haircut need be taken on the resulting error position provided the security position is immediately liquidated upon discovery, but no later than the closing of the business day after the day the error occurred.

A broker-dealer is considered to be primarily in the business of acting as a floor broker when 75% of its gross revenue is derived from floor brokerage commissions.

This interpretation is applicable for a floor broker which either owns its seat or leases its seat.

(SEC Staff to NYSE) (No. 03-2, March 2003)

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(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

(A) GOVERNMENT SECURITIES

(1) In the case of a security issued or guaranteed as to principal or interest by the United States or any agency thereof, the applicable percentages of the market value of the net long or short position in each of the categories specified below are:

Category 1

(i) Less than 3 months to maturity 0%

(ii) 3 months but less than 6 months to maturity ..... 1/2 of 1%

(iii) 6 months but less than 9 months to maturity ..... 3/4 of 1%

(iv) 9 months but less than 12 months to maturity 1%

Category 2

(i) 1 year but less than 2 years to maturity 1 1/2%

(ii) 2 years but less than 3 years to maturity 2%

Category 3

(i) 3 years but less than 5 years to maturity 3%

(ii) 5 years but less than 10 years to maturity 4%

Category 4

(i) 10 years but less than 15 years to maturity 4 1/2%

(ii) 15 years but less than 20 years to maturity 5%

(iii) 20 years but less than 25 years to maturity 5 1/2%

(iv) 25 years or more to maturity 6%

Brokers or dealers shall compute a deduction for each category above as follows: Compute the deductions for the net long or short positions in each subcategory above. The deduction for the category shall be the net of the aggregate deductions on the long positions and the aggregate deductions on short positions in each category plus 50% of the lesser of the aggregate deductions on the long or short positions.

(c)(2)(vi)(A) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

(2) A broker or dealer may elect to deduct, in lieu of the computation required under paragraph (c)(2)(vi)(A)(1) of this section, the applicable percentages of the market value of the net long or short positions in each of the subcategories specified in paragraph (c)(2)(vi)(A)(1) of this section.

(3) In computing deductions under paragraph (c)(2)(vi)(A)(1) of this section, a broker or dealer may elect to exclude the market value of a long or short security from one category and a security from another category, Provided, That:

(i) Such securities have maturity dates:

(A) Between 9 months and 15 months and within 3 months of one another.

(B) Between 2 years and 4 years and within 1 year of one another; or

(C) Between 8 years and 12 years and within 2 years of one another.

(ii) The net market value of the two excluded securities shall remain in the category of the security with the higher market value.

(4) In computing deductions under paragraph (c)(2)(vi)(A)(1) of this section, a broker or dealer may include in the categories specified in paragraph (c)(2)(vi)(A)(1) of this section, long or short positions in securities issued by the United States or any agency thereof that are deliverable against long or short positions in futures contracts relating to Government securities, traded on a recognized contract market approved by the Commodity Futures Trading Commission, which are held in the proprietary or other accounts of the broker or dealer. The value of the long or short positions included in the categories shall be determined by the contract value of the futures contract held in the account. The provisions of Appendix B to Rule 15c3-1 (17 CFR 240.15c3-1b) will in any event apply to the positions in futures contracts.

(c)(2)(vi)(A) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/01 Quasi-agency Securities

Government securities haircuts apply also to securities issued under the sponsorship of the United States or any agency thereof, where the securities are traded in the market on a basis similar to securities issued or guaranteed as to principal or interest by the United States or any agency thereof.

Some examples of debt securities to which government securities haircuts apply are:

Bank for Cooperatives
District of Columbia
Export-Import Banks
Farm Credit Bank
Federal Agricultural Mortgage Corporation
Federal Home Loan Banks
Federal Home Loan Mortgage Corp.
Federal Intermediate Credit Banks
Federal Land Banks
Federal National Mortgage Assn.
General Services Administration
General National Mortgage Assn.
International Bank for Reconstruction
and Development
Tennessee Valley Authority
Washington Metropolitan Area Transit Authority

(SEC Staff to NYSE) (No. 79-2, January 1979)
(SEC Staff to NYSE) (No. 00-6, September 2000)

/011 Government Agency Securities that are Direct Obligations of or Guaranteed as to Principal or Interest by the United States

Securities that are direct obligations of, or obligations guaranteed as to principal or interest by the United States, such as Government National Mortgage Association (GNMA) securities, Public Housing Authority bonds guaranteed as to principal or interest by the United States, and the portion of loans guaranteed as to principal and interest by the Small Business Administration are subject to the haircuts specified in SEA Rule 15c3-1(c)(2)(vi)(A) (Government Securities).

(Letters from SEC Staff of DMR to Robison, Curphey & O'Connell, August 2, 1977)
(Letters from SEC Staff of DMR to Rogers & Lamb, August 30, 1977)

(c)(2)(vi)(A) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/02 GNMA's (Temporary Interpretation)*

All transactions in GNMA's maturing in twenty-five years or more (including issued positions, commodity exchange futures, and TBA's **) are treated as a special separate category subject to haircut percentages as follows:

Issued positions or TBA's unhedged	6% of the net long or short market value
Commodity exchange futures unhedged and spreads in commodity exchange futures	In accordance with SEA Rule 15c3-1 Appendix B subparagraph (a)(3)(xiv)
Issued positions hedged by commodity exchange futures or TBA's	No haircut
TBA's hedged by commodity exchange futures	No haircut
Issued positions hedging issued positions	No haircut
TBA's hedging TBA's	No haircut

(See interpretation 15c3-1 (Appendix A)/021 for treatment of GNMA standbys.)

* Subject to modification

** TBA's (to be announced) are delayed delivery and "when issued" type transactions in GNMA's. Generally, GNMA pool numbers are not announced or assigned to these transactions on trade date.

(SEC Staff to NYSE) (No. 79-10, December 1979)

(c)(2)(vi)(A) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/021 FHLMC's (Federal Home Loan Mortgage Corporation -Temporary Interpretation)*

All transactions in FHLMC's maturing in twenty-five years or more (including issued positions, and TBA's**) are treated as a special separate category subject to haircut percentages as follows:

Issued positions or TBA's unhedged	6% of the net long or short market value
Issued positions hedged by TBA's	No haircut
Issued positions hedging issued positions	No haircut
TBA's hedging TBA's	No haircut

*Subject to modification

**TBA's (to be announced) are delayed delivery and "when issued" type transactions in FHLMC's. Generally, FHLMC group numbers are not announced or assigned to these transactions on trade date.

(SEC Staff to NYSE) (No. 79-10, December 1979)
(No. 82-3, August 1982)

/03 GNMA's

If a broker-dealer's net position in GNMA's is comprised of either issued or futures positions, the broker-dealer may elect to include the net position in the government securities haircut computation as specified in paragraph (c)(2)(vi)(A).

(SEC Staff to NYSE) (No. 82-3, December 1982)

(c)(2)(vi)(A) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/04 Alternative for Pass -Through mortgage Securities

Haircuts on pass -through mortgage securities sponsored by the Unites States government or any agency thereof, may be calculated using the treatment outlined in the SEC No-Action Letter to the NYSE, dated December 30, 1996. (See NYSE Interpretation Memo 97-2 for a copy of the letter.)

(SEC Letter to NYSE, December 30, 1996) (No.97-2, February 1997)

(5) In the case of a Government securities dealer that reports to the Federal Reserve System, that transacts business directly with the Federal Reserve System, and that maintains at all times a minimum net capital of at least $50,000,000 before application of the deductions provided for in paragraph (c)(2)(vi) of this section, the deduction for a security issued or guaranteed as to principal or interest by the United States or any agency thereof shall be 75 percent of the deduction otherwise computed under paragraph (c)(2)(vi)(A) of this section.

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(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

(B) MUNICIPALS

(1) In the case of any municipal security which has a scheduled maturity at date of issue of 731 days or less and which is issued at par value and pays interest at maturity, and which is not traded flat or in default as to principal or interest, the applicable percentages of the market value on the greater of the long or short position in each of the categories specified below are:

(i) Less than 30 days to maturity 0%

(ii) 30 days but less than 91 days to maturity .....1/8 of 1%

(iii) 91 days but less than 181 days to maturity .....1/4 of 1%

(iv) 181 days but less than 271 days to maturity .....3/8 of 1%

(v) 271 days but less than 366 days to maturity .....1/2 of 1%

(vi) 366 days but less than 456 days to maturity .....3/4 of 1%

(vii) 456 days but less than 732 days to maturity 1%

(2) In the case of any municipal security, other than those specified in paragraph (c)(2)(vi)(B)(1), which is not traded flat or in default as to principal or interest, the applicable percentages of the market value of the greater of the long or short position in each of the categories specified below are:

(i) Less than 1 year to maturity..... 1%

(ii) 1 year but less than 2 years to maturity..... 2%

(iii) 2 years but less than 3 1/2 years to maturity..... 3%

(iv) 3 1/2 years but less than 5 years to maturity..... 4%

(v) 5 years but less than 7 years to maturity..... 5%

(vi) 7 years but less than 10 years to maturity.....5 1/2%

(vii) 10 years but less than 15 years to maturity..... 6%

(viii) 15 years but less than 20 years to maturity.....6 1/2%

(ix) 20 years or more to maturity..... 7%

(c)(2)(vi)(B) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/01 Zero Coupon Issues - Application

Zero coupon bonds may be treated under the haircut provisions of paragraph (c)(2)(vi)(B)(2) providing that other securities issued by the municipality are not in default or trading flat as to principal and interest. If other securities of the municipality are in default or are trading flat as to principal or interest, the haircut will be the percentage as specified in SEA Rule 15c3-1(c)(2)(vi)(J).

(SEC Staff to NYSE) (No. 82-3, December 1982)

/02 Municipal Securities - Presumed Marketability

Where municipal securities are valued under the presumed marketability method as under interpretation 15c3-1(c)(2)(vii)/02 the haircut to be taken is the greater of the deduction specified above or the deduction taken in arriving at the presumed value.

(SEC Staff to NYSE) (No. 86-8, August 1986)

/03 Municipal Put Bonds - Endorsed by Issuer

A one percent (1%) haircut can be taken on the aggregate principal amount of proprietary municipal put bonds when:

- The issue is a variable or floating rate municipal security which should normally trade at or near par with a non-severable periodic demand feature which entitles the holder to put the underlying security to the issuer through the re-marketing agent at its par value at designated times.

- The issuer supports its ability to satisfy the holder's demand with an irrevocable letter of credit, a standby bond purchase agreement or other liquidity feature which provides third-party credit support to ensure the availability of sufficient funds to allow a holder to recover the principal amount of the instrument upon the exercise of the demand feature.

(SEC Letter to NYSE and NASD, August 18, 1988) (No. 88-19, October 1988)
(No. 93-6, November 1993)

(c)(2)(vi)(B) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/04 Municipal Put Bonds - Endorsed by Broker-dealers

A municipal bond that has been sold with a put endorsed or guaranteed by the broker-dealer where the bond can be put to the broker-dealer with no obligation of the issuer to purchase it back, should be treated as an uncovered OTC put under SEA Rule 15c3-1a(c)(2).

(SEC Staff to NYSE) (No. 86-8, August 1986) (No. 93-6, November 1993)

(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

(C) CANADIAN DEBT OBLIGATIONS

In the case of any security issued or unconditionally guaranteed as to principal and interest by the Government of Canada, the percentages of market value to be deducted shall be the same as in (A) above.

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(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

(D) CERTAIN MUNICIPAL BOND TRUSTS AND LIQUID ASSET FUNDS

(1) In the case of redeemable securities of an investment company registered under the Investment Company Act of 1940, which assets consist of cash or money market instruments and which is described in § 270.2a-7 of this chapter, the deduction will be 2% of the market value of the greater of the long or short position.

(2) In the case of redeemable securities of an investment company registered under the Investment Company Act of 1940, which assets are in the form of cash or securities or money market instruments of any maturity which are described in paragraph (c)(2)(vi)(A) through (C) or (E) of this section, the deduction shall be 7% of the market value of the greater of the long or short positions.

(3) In the case of redeemable securities of an investment company registered under the Investment Company Act of 1940, which assets are in the form of cash or securities or money market instruments which are described in paragraphs (c)(2)(vi)(A) through (C) or (E) and (F) of this section, the deduction shall be 9% of the market value of the long or short position.

/01 Money Market Funds – Rescinded (FINRA Regulatory Notice 14-06)

/02 Registered Investment Companies with Repurchase Agreements in the Portfolio

Repurchase agreements in the portfolio of registered investment companies do not alter the haircuts applicable to the registered investment company issue pursuant to SEA Rule 15c3-1(c)(2)(vi)(D)(1), (2), and (3).

(SEC Staff of DMR to NASD, April 1981)

/03 Redeemable Securities of an Investment Company Registered Under the Investment Company Act of 1940

If the prospectus issued by an investment company registered under the Investment Company Act of 1940 indicates that the investment company may invest in, or its assets may consist of securities or money market instruments that are not specified in paragraphs (D)(2) and (D)(3) of this Rule, the haircut deduction to be applied shall be 15% of the market value of the greater of the long or short positions held by the broker-dealer in such redeemable securities.

(SEC Staff to FINRA) (FINRA Regulatory Notice 13-44)

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(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

(E) COMMERCIAL PAPER, BANKERS ACCEPTANCES AND CERTIFICATES OF DEPOSIT

In the case of any short term promissory note or evidence of indebtedness which has a fixed rate of interest or is sold at a discount, which has a maturity date at date of issuance not exceeding nine months exclusive of days of grace, or any renewal thereof, the maturity of which is likewise limited and has only a minimal amount of credit risk, or in the case of any negotiable certificates of deposit or bankers' acceptance or similar type of instrument issued or guaranteed by any bank as defined in section 3(a)(6) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(6)), the applicable percentage of the market value of the greater of the long or short position in each of the categories specified below are:

(1) Less than 30 days to maturity..... 0%

(2) 30 days but less than 91 days to maturity.....1/8 of 1%

(3) 91 days but less than 181 days to maturity.....1/4 of 1%

(4) 181 days but less than 271 days to maturity.....3/8 of 1%

(5) 271 days but less than 1 year to maturity.....1/2 of 1%

(6) with respect to any negotiable certificate of deposit or bankers acceptance or similar type of instrument issued or guaranteed by any bank, as defined above, having 1 year or more to maturity, the deduction shall be on the greater of the long or short position and shall be the same percentage as that prescribed in subdivision (c)(2)(vi)(A) above.

/01 Commercial Paper Rating - Rescinded (FINRA Regulatory Notice 14-38)

/011 Commercial Paper Marketability

See interpretation 15c3-1(c)(2)(vii)/06 for ready market criteria.

/012 Commercial Paper Marketability under Section 936 Market

See interpretation 15c3-1(c)(2)(vii)/07 for ready market criteria.

/013 Concentration Charge on Money Market Instruments - Greater than 30% of Tentative Net Capital

See interpretation 15c3-1(c)(2)(vii)/09 for concentration criteria.

(c)(2)(vi)(E) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/02 Certificates of Deposit - Banks

The haircuts in this subparagraph apply to certificates of deposit issued by Federal Savings and Loan Associations and certain state chartered insured institutions, as authorized by the Federal Home Loan Bank Board.

(SEC Letter to A.G. Becker & Co., Inc., March 10, 1976)
(No. 76-4, April 1976)

/03 Federally Chartered Savings and Loan Association Short-Term Promissory Notes

Short-term promissory notes issued by federally chartered savings and loan associations should be treated as if commercial paper, provided the notes have a maturity date at issuance not exceeding nine months exclusive of date of grace, or any renewal thereof (the maturity of which is likewise limited) and have only a minimal amount of credit risk (see paragraphs (c)(2)(vi)(E) and (c)(2)(vi)(I) of SEA Rule 15c3-1).

(SEC Letter to A.G. Becker Inc., August 1, 1979) (No. 79-10, December 1979)
(SEC Staff to FINRA) (FINRA Regulatory Notice 14-38)

/04 Certificates of Deposit-Non-Negotiable

Non-negotiable certificates of deposit subject to immediate withdrawal at any time pursuant to the requirements of Regulation Q of the Federal Reserve System are allowable assets for net capital purposes, less the early withdrawal penalties, if any, and less the haircut charges stipulated in this subparagraph (c)(2)(vi)(E).

No capital value is allowable if not subject to immediate withdrawal.

(SEC Staff to NYSE) (No. 88-15, September 1988)

/05 Foreign Bankers Acceptances and Bankers Deposit Notes

See interpretation 15c3-1(c)(2)(vii)/09 (Marketability of Money Market Instruments).

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(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

(F) NONCONVERTIBLE DEBT SECURITIES

(1) In the case of nonconvertible debt securities having a fixed interest rate and a fixed maturity date, which are not traded flat or in default as to principal or interest and which have only a minimal amount of credit risk, the applicable percentages of the market value of the greater of the long or short position in each of the categories specified below are:

(i) Less than 1 year to maturity.....2%

(ii) 1 year but less than 2 years to maturity.....3%

(iii) 2 years but less than 3 years to maturity.....5%

(iv) 3 years but less than 5 years to maturity.....6%

(v) 5 years but less than 10 years to maturity.....7%

(vi) 10 years but less than 15 years to maturity..... 7 1/2%

(vii) 15 years but less than 20 years to maturity.....8%

(viii) 20 years but less than 25 years to maturity..... 8 1/2%

(ix) 25 years or more to maturity.....9%

(2) A broker or dealer may elect to exclude from the above categories long or short positions that are hedged with short or long positions in securities issued by the United States or any agency thereof or nonconvertible debt securities having a fixed interest rate and a fixed maturity date and which are not traded flat or in default as to principal or interest, and which have only a minimal amount of credit risk if such securities have maturity dates:

(i) Less than five years and within 6 months of each other,

(ii) Between 5 years and 10 years and within 9 months of each other,

(iii) Between 10 years and 15 years and within 2 years of each other; or

(iv) 15 years or more and within 10 years of each other.

The broker-dealer shall deduct the amounts specified in paragraphs (c)(2)(vi)(F)(3) and (4) of this section.

(c)(2)(vi)(F) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

(3) With respect to those positions described in paragraph (c)(2)(vi)(F)(2) of this section that include a long or short position in securities issued by the United States or any agency thereof, the broker or dealer shall exclude the hedging short or long United States or agency securities position from the applicable haircut category under paragraph (c)(2)(vi)(A) of this section. The broker or dealer shall deduct the percentage of the market value of the hedged long or short position in nonconvertible debt securities as specified in each of the categories below:

(i) Less than 5 years to maturity 1 1/2%

(ii) 5 years but less than 10 years to maturity 2 1/2%

(iii) 10 years but less than 15 years to maturity 2 3/4%

(iv) 15 years or more to maturity 3%

(4) With respect to those positions described in paragraph (c)(2)(vi)(F)(2) of this section that include offsetting long and short positions in nonconvertible debt securities, the broker or dealer shall deduct a percentage of the market value of the hedged long or short position in nonconvertible debt securities as specified in each of the categories below:

(i) Less than 5 years to maturity 1 3/4%

(ii) 5 years but less than 10 years to maturity 3%

(iii) 10 years but less than 15 years to maturity 3 1/4%

(iv) 15 years or more to maturity 3 1/2%

(5) In computing deductions under paragraph (c)(2)(vi)(F)(3) of this section, a broker or dealer may include in the categories specified in paragraph (c)(2)(vi)(F)(3) of this section, long or short positions in securities issued by the United States or any agency thereof that are deliverable against long or short positions in futures contracts relating to Government securities, traded on a recognized contract market approved by the Commodity Futures Trading Commission, which are held in the proprietary or other accounts of the broker or dealer. The value of the long or short positions included in the categories shall be determined by the contract value of the futures contract held in the account.

/01 Hedging of Debt Securities

When determining haircut charges under Rule 15c3-1(c)(2)(vi)(F)(3) through (5), debt securities can only be hedged with other debt securities that are denominated in the same currency.

(SEC Staff to NYSE) (No. 97-6, September 1997)

(c)(2)(vi)(F) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

(6) The provisions of Appendix B to Rule 15c3-1 (17 CFR 240.15c3-1b) will in any event apply to the positions in futures contracts.

/01 Zero Coupon Bonds - Application

Corporate zero coupon bonds having a fixed maturity date may be treated under the haircut provisions of paragraph (c)(2)(vi)(F) providing:

1. That other securities issued by the entity are not in default as to principal or interest, and

2. The bonds have only a minimal amount of credit risk (see paragraphs (c)(2)(vi)(F) and (c)(2)(vi)(I) of SEA Rule 15c3-1).

(SEC Staff to NYSE) (No. 82-3, December 1982)
(SEC Staff to FINRA) (FINRA Regulatory Notice 14-38)

/02 Taxable Securities Issued By Church And Health Care Institutions

For the above securities to be treated under this subparagraph, only one rating in one of the four highest categories by a nationally recognized statistical rating organization is required.

(SEC Letter to O'Connor & Hannan, June 29, 1993) (No. 93-6, November 1993)
(SEC Staff to NYSE) (No. 97-6, October 1997)

/03 Repurchase Agreements and Reverse Repurchase Agreements in Non-Marginable Corporate Bonds

See subparagraph (c)(2)(iv)(F) of SEA Rule 15c3-1.

(c)(2)(vi)(F) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/04 Foreign Sovereign National Government Debt Securities

See interpretation15c3-1(c)(2)(vii)/08 (Marketability of Certain Foreign and Domestic Securities).

/05 Canadian Province or Municipal Debt Securities

See interpretation 15c3-1(c)(2)(vii)/08 (Marketability of Certain Foreign and Domestic Securities).

/06 Foreign Non-Convertible Debt Securities

See interpretation 15c3-1(c)(2)(vii)/08 (Marketability of Certain Foreign and Domestic Securities).

/07 Secondary Mortgage Market Enhancement Act (SMMEA) Debt Securities

Debt securities issued under the Secondary Mortgage Market Enhancement Act (SMMEA) which are rated in one of the two highest rating categories by one of the nationally recognized rating organizations may be included and combined as non-convertible debt securities under this subparagraph (c)(2)(vi)(F)(1) through (6) of SEA Rule 15c3-1 for haircut purposes.

(SEC Letter to SIA, June 12, 1992) (No. 92-12, December 1992)

/08 Defense Security Assistance Agency Guaranteed Debt Securities

Debt securities which are 90% guaranteed by the Defense Security Assistance Agency pursuant to Public Law No. 100.202 and 31 C.F.R. Part 25 (Foreign Operations Export Financing and Related Programs Appropriations Act of 1988 - Foreign Military Sales Debt Reform), may be included and combined under this subparagraph (c)(2)(vi)(F)(1) through (6) of SEA Rule 15c3-1 for haircut purposes.

(SEC Staff to NYSE) (No. 90-11, December 1990)

(c)(2)(vi)(F) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/09 Corporate Put Bond Haircuts

Variable interest rate corporate debt securities with a non-severable periodic demand feature are subject to a two percent (2%) deduction from the aggregate principal amount provided the securities:

1. Are supported by a Credit Facility provided by a credit-worthy institution that covers the payment of principal, interest and premium on any bonds tendered to the issuer under the put;

2. Trade generally at par;

3. Have a Put Date no greater than six months from the previous Put Date; and

4. Otherwise meet the criteria set forth in paragraph (c)(2)(vi)(F) of SEA Rule 15c3-1.

(SEC Letter to NYSE and NASD, November 26, 1990) (No. 90-11, December 1990)
(No. 93-6, November 1993)
(SEC Staff to FINRA) (FINRA Regulatory Notice 14-38)

/10 Nonconvertible Debt Securities Not Highly Rated

See interpretation 15c3-1(c)(2)(vii)/10 (Marketability of Nonconvertible Debt Securities Which Are Not Highly Rated).

/11 Government Stripped Bonds and Coupons

U.S. government bonds and coupons which have been stripped by the U.S. government, shall be subject to haircuts under the appropriate subsections of SEA Rule 15c3-1(c)(2)(vi)(A).

U.S. Treasury notes, bonds and coupons which have been stripped by an entity other than the U.S. government, shall be subject to haircuts under the appropriate subsections of SEA Rule 15c3-1(c)(2)(vi)(F).

(SEC Staff to NYSE) (No.97-6, October 1997)
(SEC Staff to FINRA) (FINRA Regulatory Notice 14-38)

(c)(2)(vi)(F) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/12 Nonconvertible Debt Securities with Variable Interest Rate

For nonconvertible debt securities having a variable interest rate and a fixed maturity date and which are not traded flat or in default as to principal or interest and which have only a minimal amount of credit risk (see paragraphs (c)(2)(vi)(F) and (c)(2)(vi)(I) of SEA Rule 15c3-1), the applicable haircut percentages on the market value of the greater of the long or short position in each of the categories specified under SEA Rule 15c3-1(c)(2)(vi)(F)(1) shall be applied.

When computing the haircut charge under SEA Rule 15c3-1(c)(2)(vi)(F)(1), a broker-dealer may combine the variable interest rate nonconvertible debt securities that meet the aforementioned requirements with the fixed interest rate nonconvertible debt securities that meet the requirements of SEA Rule 15c3-1(c)(2)(vi)(F)(1).

The haircut on variable interest rate nonconvertible debt securities under SEA Rule 15c3-1(c)(2)(vi)(F)(1) is to be determined based upon the maturity date of the instrument and not the "next interest rate reset date".

(SEC Staff to NYSE) (No. 05-8, April 2005)
(SEC Staff to FINRA) (FINRA Regulatory Notice 14-38)

(NEXT PAGE IS 491)

(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

(G) CONVERTIBLE DEBT SECURITIES

In the case of a debt security not in default which has a fixed rate of interest and a fixed maturity date and which is convertible into an equity security, the deductions shall be as follows: If the market value is 100 percent or more of the principal amount, the deduction shall be determined as specified in subdivision (J) below; if the market value is less than the principal amount, the deduction shall be determined as specified in subdivision (F) above if such securities are rated as required by subdivision (F) above.

/01 High Coupon Interest

Convertible debt securities having market values in excess of 100% of the principal amount may still be subject to the lower haircuts specified under SEA Rule 15c3-1(c)(2)(vi)(F) if:

1. The coupon or specified interest rate of the convertible bond is greater than the current interest market rate for similar (nonconvertible) bonds of the same grade or quality and the market price represents an equivalent current yield;

2. The current market value of the equity security to be received upon conversion is not such that the conversion would be other than a loss conversion; and

3. The securities are rated as required under subdivision (F).

(SEC Staff to NYSE) (No. 83-5, November 1983)

/02 Foreign Convertible Debt Securities

See interpretation 15c3-1(c)(2)(vii)/08 (Marketability of Certain Foreign and Domestic Securities).

(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

(H) PREFERRED STOCK

In the case of cumulative, non-convertible preferred stock ranking prior to all other classes of stock of the same issuer, which has only a minimal amount of credit risk and which are not in arrears as to dividends, the deduction shall be 10% of the market value of the greater of the long or short position.

/01 Foreign Debt and Preferred Equity Securities

See interpretation 15c3-1(c)(2)(vii)/08 (Marketability of Certain Foreign and Domestic Securities).

/02 Municipal Auction Rate Cumulative Preferred Stock

Municipal Auction Rate Cumulative Preferred Stocks are subject to the requirements of paragraphs (c)(2)(vi)(H) and (c)(2)(vi)(I) of SEA Rule 15c3-1.

(SEC Staff to NYSE) (No. 93-6, November 1993)
(SEC Staff to FINRA) (FINRA Regulatory Notice 14-38)

(I) In order to apply a deduction under paragraphs (c)(2)(vi)(E), (c)(2)(vi)(F)(1), (c)(2)(vi)(F)(2), or (c)(2)(vi)(H) of this section, the broker or dealer must assess the creditworthiness of the security or money market instrument pursuant to policies and procedures for assessing and monitoring creditworthiness that the broker or dealer establishes, documents, maintains, and enforces. The policies and procedures must be reasonably designed for the purpose of determining whether a security or money market instrument has only a minimal amount of credit risk. Policies and procedures that are reasonably designed for this purpose should result in assessments of creditworthiness that typically are consistent with market data. A broker-dealer that opts not to make an assessment of creditworthiness under this paragraph may not apply the deductions under paragraphs (c)(2)(vi)(E), (c)(2)(vi)(F)(1), (c)(2)(vi)(F)(2), or (c)(2)(vi)(H) of this section.

Note to paragraph (c)(2)(vi)(I): For a discussion of the "minimal amount of credit risk" standard, *see Removal of Certain References to Credit Ratings Under the Securities Exchange Act of 1934*, Exchange Act Release No. 34-71194 (Dec. 27, 2013), at *http://www.sec.gov/rules/final.shtml*.

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(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

(J) ALL OTHER SECURITIES

In the case of all securities or evidences of indebtedness, except those described in Appendix A, § 240.15c3-1a, which are not included in any of the percentage categories enumerated in paragraphs (c)(2)(vi)(A) through (H) of this section or paragraph (c)(2)(vi)(K)(ii) of this section, the deduction shall be 15 percent of the market value of the greater of the long or short positions and to the extent the market value of the lesser of the long or short positions exceeds 25 percent of the market value of the greater of the long or short positions, the percentage deduction on such excess shall be 15 percent of the market value of such excess. No deduction need be made in the case of:

(1) a security that is convertible into or exchangeable for another security within a period of 90 days, subject to no conditions other than the payment of money, and the other securities into which such security is convertible or for which it is exchangeable, are short in the accounts of such broker or dealer; or

(2) a security that has been called for redemption and that is redeemable within 90 days.

/01 Bona Fide Arbitrage

A bona fide arbitrage exists when a long security is convertible into or exchangeable for a short security, subject to the conditions stated in this subparagraph (J) text, and may, in lieu of the treatment prescribed in other sections of SEA Rule 15c3-1 be treated as if the exchange or conversion had been effected, i.e., at realizable values.

For net capital purposes, any cash to be received or paid is credited or charged to net worth, respectively, in lieu of long or short market values. An example follows.

XYZ preferred is convertible into XYZ common on a share for share basis. XYZ preferred sells for $120; XYZ common sells for $100. The $20 per share loss, resulting had the preferred been converted, is charged as a haircut in the computation of net capital.

(SEC Staff to NYSE) (No. 88-15, September 1988)

/011 Settlement - Different Periods

Exchangeable securities or the same security purchased and sold simultaneously in different markets but with different settlement dates are considered offsetting positions, provided that settled positions will result in equivalent long and short positions.

(SEC Staff to NYSE)

(c)(2)(vi)(J) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/012 Bona Fide Arbitrage - Same Securities

Bona fide arbitrage treatment can be applied to a security position that is convertible into or exchangeable for the same security that the firm is short. For example, a long restricted preferred security that is convertible into a restricted equity security cannot be offset by a short unrestricted equity position to obtain bona fide arbitrage treatment. Securities which cannot be publicly offered or sold because of statutory, regulatory or contractual agreements or other restrictions, are not considered the same as unrestricted securities.

(SEC Staff to NYSE) (No. 93-6, November 1993)

/013 Exchange Traded Funds - Unhedged

Exchange traded funds such as SPDRs, DIAMONDS, HOLDRS, WEBS, Index Shares, etc, on high-capitalization broad-based indexes will be subject to a haircut charge of 10% and on non-high-capitalization broad-based and narrow-based or sector indexes will be subject to a haircut charge of 15%.

(SEC Staff to NYSE) (No. 01-05, August 2001)

/014 Exchange Traded Funds Hedged With Underlying Securities

Exchange traded funds (ETFs) such as SPDRs, DIAMONDS, HOLDRS, WEBS, Index Shares etc, offset by qualified stock baskets of the underlying securities to these products, will be subject to a minimum haircut charge of 5% on the market value of the qualified stock baskets for high-capitalization broad-based and narrow-based or sector indexes including the U.S. NASD Market index and 7 ½% for non-high-capitalization broad-based indexes. The market value of underlying securities in excess of the hedged ETF amount should be treated as other securities and subject to paragraph (J) while the market value of ETFs in excess of the hedged underlying securities amount should be subject to interpretation 15c3-1(c)(2)(vi)(J)/013. (Also, see SEA Rule 15c3-1a(b)(1)(i)(D).)

(SEC Staff to NYSE) (No. 01-05, August 2001)

(c)(2)(vi)(J) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/015 Exchange Traded Funds With Underlying Commodity Products - Unhedged

An Exchange Traded Fund where the underlying instruments are commodity products is subject to a haircut charge of 15% when unhedged.

(SEC Staff to NYSE) (No. 05-8, April 2005)

/016 Exchange Traded Funds With Underlying Commodity Products - Hedged

An Exchange Traded Fund where the underlying instruments are commodity products, when fully hedged with either a commodity futures contract, a commodity future options contract traded on an exchange, the underlying spot commodity or a commodity forward contract (which go out for 30 days or less), is subject to a haircut charge of 5%.

(SEC Staff to NYSE) (No. 05-8, April 2005)

/02 Tenders

There is no deduction for securities that are the subject of an irrevocable tender offer or which have been officially accepted provided that the transaction can be consummated within 90 days.

Note that most offering circulars contain boiler plate contingency clauses which by their terms negate irrevocability. In these cases a haircut is charged until the securities have been officially accepted and/or paid for.

(SEC Staff to NYSE)

/03 Foreign Equity Securities – FTSE World Index

Equity securities of a foreign issuer that are listed on the FTSE World Index may be included under this subparagraph (c)(2)(vi)(J) for haircut purposes. All other foreign equities will have to meet the ready market criteria outlined in subparagraph (c)(11). For cumulative, nonconvertible preferred stock ranking prior to all other classes of stock of the same issuer, see interpretation 15c3-1(c)(2)(vi)(H)/01.

(SEC Letter to SIA, August 13, 1993) (No. 93-5, September 1993)
(No. 93-6, November 1993)
(SEC Staff to NYSE) (No. 01-3, March 2001)

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(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

(K) SECURITIES WITH A LIMITED MARKET

In the case of securities (other than exempted securities, non-convertible debt securities, and cumulative nonconvertible preferred stock) which are not: (1) traded on a national securities exchange; (2) designated as "OTC Margin Stock" pursuant to Regulation T under the Securities Exchange Act of 1934; (3) quoted on "NASDAQ"; or (4) redeemable shares of investment companies registered under the Investment Company Act of 1940, the deduction shall be as follows:

(i) in the case where there are regular quotations in an inter-dealer quotations system for the securities by three or more independent market-makers (exclusive of the computing broker or dealer) and where each such quotation represents a bona fide offer to brokers or dealers to both buy and sell in reasonable quantities at stated prices, or where a ready market as defined in subdivision (c)(11)(ii) is deemed to exist, the deduction shall be determined in accordance with subdivision (J) above;

/01 Ohio Dealer Data Service, Inc., Does Not Qualify

The Ohio Dealer Data Service, Inc. does not qualify as an inter-dealer quotation system. It is not recognized as an established securities market as required by the "ready market" definition in SEA Rule 15c3-1(c)(11)(i).

(SEC Letter to Pierre R. Smith & Co., August 19, 1986)
(No. 88-15, September 1988)

(ii) in the case where there are regular quotations in an inter-dealer quotations system for the securities by only one or two independent market-makers (exclusive of the computing broker or dealer) and where each such quotation represents a bona fide offer to brokers or dealers both to buy and sell in reasonable quantities, at stated prices, the deduction on the long and short position shall be 40 percent.

/01 Convertible Preferred Stock

A preferred stock having a limited market, that is freely convertible without restriction into common stock that is readily marketable, may be considered to have a market value equal to the common stock into which it is convertible.

(SEC Staff to NYSE) (No. 79-4, March 1979)

(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

(L) Where a broker or dealer demonstrates that there is sufficient liquidity for any securities long or short in the proprietary or other accounts of the broker or dealer which are subject to a deduction required by subdivision (K) above, such deduction, upon a proper showing to the Examining Authority for the broker or dealer, may be appropriately decreased, but in no case shall such deduction be less than that prescribed in subdivision (J) above.

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(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

(M) UNDUE CONCENTRATION

(1) In the case of money market instruments, or securities of a single class or series of an issuer, including any option written, endorsed or held to purchase or sell securities of such a single class or series of an issuer (other than "exempted securities" and redeemable securities of an investment company registered pursuant to the Investment Company Act of 1940), and securities underwritten (in which case the deduction provided for herein shall be applied after 11 business days), which are long or short in the proprietary or other accounts of a broker or dealer, including securities that are collateral to secured demand notes defined in Appendix D, § 240.15c3-1d, and that have a market value of more than 10 percent of the "net capital" of a broker or dealer before the application of paragraph (c)(2)(vi) of this section or Appendix A, § 240.15c3-1a, there shall be an additional deduction from net worth and/or the Collateral Value for securities collateralizing a secured demand note defined in Appendix D, § 240.15c3-1d, equal to 50 percent of the percentage deduction otherwise provided by this paragraph (c)(2)(vi) of this section or Appendix A, § 240.15c3-1a, on that portion of the securities position in excess of 10 percent of the "net capital" of the broker or dealer before the application of paragraph (c)(2)(vi) of this section and Appendix A, § 240.15c3-1a. In the case of securities described in paragraph (c)(2)(vi)(J), the additional deduction required by this paragraph (c)(2)(vi)(M) shall be 15 percent.

/01 Municipal Securities - Undue Concentration Charge

For purposes of SEA Rule 15c3-1(c)(2)(vi)(M)(1), municipal securities are not considered "exempted securities" and are subject to undue concentration charges.

See SEA Rule 15c3-1(c)(2)(vi)(M)(4) and interpretation 15c3-1(c)(2)(vi)(M)(4)/01.

(SEC Staff to NYSE) (No. 06-5, June 2006)

(2) This paragraph (c)(2)(vi)(M) shall apply notwithstanding any long or short position exemption provided for in paragraph (c)(2)(vi)(J) of this section (except for long or short position exemptions arising out of the first proviso to paragraph (c)(2)(vi)(J)) and the deduction on any such exempted position shall be 15 percent of that portion of the securities position in excess of 10 percent of the broker or dealer's net capital before the application of paragraph (c)(2)(vi) of this section and Appendix A, § 240.15c3-1a.

(3) This paragraph (c)(2)(vi)(M) shall be applied to an issue of equity securities only on the market value of such securities in excess of $10,000 or the market value of 500 shares, whichever is greater, or $25,000 in the case of a debt security.

(c)(2)(vi)(M) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

(4) This paragraph (c)(2)(vi)(M) will be applied to an issue of municipal securities having the same security provisions, date of issue, interest rate, day, month and year of maturity only if such securities have a market value in excess of $500,000 in bonds ($5,000,000 in notes) or 10 percent of tentative net capital, whichever is greater, and are held in position longer than 20 business days from the date the securities are received by the syndicate manager from the issuer.

/01 Municipal Securities – Undue Concentration Charge

Initial and Secondary Offerings

A municipal security held in inventory by a syndicate manager for a period longer than 20 business days from the date such security is received from the issuer, is subject to an undue concentration charge. The undue concentration charge is applicable to the greater of the market value of the municipal security in excess of $500,000 in bonds ($5,000,000 in notes) or 10 percent of tentative net capital.

Secondary Market

Municipal securities acquired in the secondary market are subject to undue concentration charges immediately upon being acquired. The undue concentration charge is applicable to the greater of the market value of the municipal security in excess of $500,000 in bonds ($5,000,000 in notes) or 10 percent of tentative net capital.

(SEC Staff to NYSE) (No. 06-5, June 2006)

(c)(2)(vi)(M) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

(5) Any specialist that is subject to a deduction required by this paragraph (c)(2)(vi)(M), respecting its specialty stock, that can demonstrate to the satisfaction of the Examining Authority for such broker or dealer that there is sufficient liquidity for such specialist's specialty stock and that such deduction need not be applied in the public interest for the protection of investors, may upon a proper showing to such Examining Authority have such undue concentration deduction appropriately decreased, but in no case shall the deduction prescribed in paragraph (c)(2)(vi)(J) of this section above be reduced. Each such Examining Authority shall make and preserve for a period of not less than 3 years a record of each application granted pursuant to this paragraph (c)(2)(vi)(M)(5), which shall contain a summary of the justification for the granting of the application.

/01 Removed (No. 97-5, September 1997)

/011 Theoretical Options Pricing Models - Concentration Charges – Rescinded (No. 04-3, June 2004)

/012 Theoretical Options Pricing Models - Concentration Charges

Equity securities that are included in a Theoretical Options Pricing Model computation but not fully offset by options and/or futures positions shall remain subject to this section of the rule.

(SEC Staff to NYSE) (No. 04-3, June 2004)

/021 Removed (No. 97-5, September 1997)

/03 Securities Concentration - Positions Included

Undue concentration charges apply to securities positions as follows:

POSITION	UNDUE CONCENTRATION
Trading and investment accounts	Applies
Customers' and non-customers' partly secured accounts (including partly secured cash accounts with more than one Regulation T extension)	Applies
Secured demand note collateral necessary for proper collateralization	Applies
Aged fails to deliver	Does not apply

(c)(2)(vi)(M) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/04 Tentative Net Capital

In computing tentative net capital (or net capital before the application of haircuts and undue concentration charges on securities and option positions), a broker-dealer must comply with these procedures:

a) The part of the adjustment to net worth for the deferred tax credit add back which relates to the undue concentration deduction (SEA Rule 15c3-1(c)(2)(i)(C)(1)) shall be ignored for purposes of determining the undue concentration deduction.

b) The following must be added back to net capital to arrive at tentative net capital:

- Haircuts (and undue concentration charges) on customers' and non-customers' partly secured securities accounts (including partly secured cash accounts containing transactions that are the subject of more than one Regulation T extension);

- Haircuts (and undue concentration charges) on open contractual commitments net of unrealized profits used to reduce such charges;

- Haircuts (and undue concentration charges) on regular and proprietary positions;

- Haircuts (and undue concentration charges) on options and related underlying securities positions, reduced by the related profits and losses that would result upon the exercise of the options, and plus or net of adjustments to net worth relating to listed options;

- Deductions (net where applicable) relating to listed option spread positions;

- Deductions representing the excess of the long market value of exchangeable securities over the short market value of securities into which such long securities are convertible (see interpretation 15c3-1(c)(2)(vi)(J)/01); and

- Deduction for the deficit in a single customer's account or accounts controlled by such persons exceeding the specified percentage of tentative net capital (see interpretation 15c3-1(c)(2)(xii)/02).

(SEC Staff to NYSE) (No. 76-3, February 1976)

(c)(2)(vi)(M) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/04 Tentative Net Capital (continued)

The following are not added back to net capital to arrive at tentative net capital:

- 100% deduction for non-marketable securities.
- Charges for aged fails to deliver.

(SEC Staff to NYSE)

/05 Single Class or Series

Securities of the same issue with the same maturity but different coupon rates, or the same coupon rate but different maturities are treated as separate positions for undue concentration purposes.

(SEC Staff to NASD and NYSE) (No. 76-4, April 1976)

/06 Non-Marketable Short Securities - Undue Concentration

Undue concentration charges apply, as appropriate, to the fair value (see interpretation 15c3-1(c)(2)(i)(B)(1)/01) of short securities which are not readily marketable.

(SEC Letter to Power Securities Corporation, October 3, 1988)
(No. 89-6, June 1989)

/07 Hedged Positions

An undue concentration charge is not applicable to the hedged portion of a long (short) position which is convertible or exchangeable for short (long) positions as permitted under paragraph (c)(2)(vi)(J). Only the unhedged portion of the position is subject.

(SEC Letter to Kelly Drye & Warren, January 25, 1989) (No. 89-9, July 1989)

/08 Removed (No. 97-5, September 1997)

(c)(2)(vi)(M) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/09 Nonconvertible Debt Securities Which Are Not Highly Rated

Undue concentration charges on nonconvertible debt securities which are not highly rated and subject to haircut percentages outlined in interpretation 15c3-1(c)(2)(vii)/10 (Marketability of Nonconvertible Debt Securities Which Are Not Highly Rated) shall be 15%. This undue concentration charge may be used as an offset to the portfolio concentration charge under interpretation 15c3-1(c)(2)(vii)/10.

(SEC Staff to NYSE) (No. 96-3, April 1996)

/10 Concentration Charge on Money Market Instruments - Greater than 30% of Tentative Net Capital

See interpretation 15c3-1(c)(2)(vii)/09 for concentration criteria.

/11 Exchange Traded Funds – Undue Concentration Charge

An Exchange Traded Fund where the underlying instruments are securities is not subject to an undue concentration charge.

An Exchange Traded Fund where the underlying instruments are commodity products is subject to an undue concentration charge of 15%.

(SEC Staff to NYSE) (No. 05-8, April 2005)

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(c)(2)(vi) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

(N) SPECIALISTS

Any specialist that limits its securities business to that of a specialist (except for an occasional non-specialist related securities transaction for its own account), that does not transact a business in securities with other than a broker or dealer registered with the Commission under Section 15 or 15C of the Act or a member of a national securities exchange, and that is not a clearing member of The Options Clearing Corporation need not deduct from net worth in computing net capital those deductions, as to its specialty securities, set forth in paragraph (c)(2)(vi) of this section or Appendix A to this section, except for paragraph (e) of this section limiting withdrawals of equity capital and Appendix D to this section relating to satisfactory subordination agreements. As to a specialist that is solely an options specialist, in paragraph (e) the term "net capital" shall be deemed to mean "net capital before the application of paragraph (c)(2)(vi) of this section or Appendix A to this section" and "excess net capital" shall be deemed to be the amount of net capital before the application of paragraph (c)(2)(vi) of this section or Appendix A to this section in excess of the amount of net capital required under paragraph (a) of this section. In reports filed pursuant to CFR 240.17a-5 and in making the record required by CFR 240.17a-3(a)(11) each specialists shall include the deductions that would otherwise have been required by paragraph (c)(2)(vi) of this section or Appendix A to this section in the absence of this paragraph (c)(2)(vi)(N).

/01 Non-Specialist Securities Transactions

A specialist may not engage in any non-specialist related securities transactions except for investments made on an occasional basis. However, he may engage in hedging transactions including options transactions directly related to his specialist securities.

(SEC Staff to NYSE)

A specialist operating under this paragraph may not engage in trading non-specialist securities. However, they may make occasional investment account transactions in non-specialist securities (not more than 10 per year).

Excess funds may be invested in reverse repurchase agreement transactions as often as necessary, and not be counted as occasional investment transactions.

(SEC Staff to NYSE) (No. 90-11, December 1990)

(c)(2)(vi)(N) DEFINITIONS; NET CAPITAL: SECURITIES HAIRCUTS (continued)

/02 Servicing Family Accounts

A specialist member organization who services the customer accounts of members of its partners' (or stockholders') families shall not remain subject to this paragraph.

(SEC Staff to NYSE)

/021 Servicing Partners Accounts

A specialist member organization who services the individual accounts of its partners' or stockholders' shall not remain subject to this paragraph.

(SEC Staff to NYSE) (No. 89-6, June 1989)

/03 Joint Trading and Investment Account

A specialist in stocks may carry a joint specialist trading and investment account in which he participates and remain subject to this paragraph.

(SEC Staff to NYSE)

/04 Exchange Specialist Trading in Futures

A specialist under this paragraph may trade in commodity futures.

(ASE Circular No. 78-72, October 26, 1978)
(SEC Staff to NYSE) (No. 83-5, November 1983)

/05 Exchange Specialist Trading in Options

An exchange specialist trading in listed options transactions that are directly related to the specialist activities, shall remain subject to this paragraph.

(SEC Staff to NYSE) (No. 83-5, November 1983)

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(c)(2) DEFINITIONS; NET CAPITAL (continued)

(vii) NON-MARKETABLE SECURITIES

Deducting 100 percent of the carrying value in the case of securities or evidence of indebtedness in the proprietary or other accounts of the broker or dealer, for which there is no ready market, as defined in subparagraph (c)(11) of this section, and securities, in the proprietary or other accounts of the broker or dealer, which cannot be publicly offered or sold because of statutory, regulatory or contractual arrangements or other restrictions. (Also, see interpretation 15c3-1(c)(2)(vii)/08 Marketability of Certain Foreign and Domestic Securities.)

/001 FOCUS Reporting of Non-Marketable Inventory Positions

An inventory long position that is determined to be non-marketable and subject to a 100% deduction under the requirements of SEA Rule 15c3-1 should be reported as a non-allowable asset on line 610 (Securities owned not readily marketable) in the Statement of Financial Condition section of the FOCUS Report.

The amount of the deduction for an inventory short position that is determined to be non-marketable and which is subject to a 40% deduction under the requirements of interpretation 15c3-1(c)(2)(vii)/05 should be reported on line 3736 (Haircuts on securities – Other) in the Computation of Net Capital section of the FOCUS Report.

(SEC Staff to FINRA) (FINRA Regulatory Notice 13-44)

(c)(2)(vii) DEFINITIONS; NET CAPITAL: NON-MARKETABLE SECURITIES (continued)

/01 Marketplace Blockage

When it can be established that the marketplace can absorb only a limited number of shares of a security for which a ready market seemingly exists, the non-marketable portion of that position is subject to a 100% deduction (and treated as a non-allowable asset).

(SEC Staff to NYSE and NASD) (No. 96-4, November 1996)

For shares of common stock or preferred stock not covered by paragraph (c)(2)(vi)(H) of SEA Rule l5c3-l (highly rated preferred stock), the Division will raise no question nor recommend any action to the Commission if a broker-dealer, when faced with a blockage in securities, treats as readily marketable securities that portion of the block which equals the aggregate of the most recent four-week, inter-dealer trading volume. The number of shares exceeding the aggregate of the most recent four-week inter-dealer trading volume should be considered non-marketable and subject to a l00% deduction (and treated as a non-allowable asset) unless the broker-dealer demonstrates to the satisfaction of its Designated Examining Authority that a ready market exists for these shares.

Those securities purchased by the computing broker-dealer during the most recent four-week period shall be excluded from the determination of trading volume.

(SEC Letter to NYSE, October 5, 1987) (No. 87-11, December 1987)

Subsequent sale of securities deemed non-marketable due to marketplace blockage will be considered as demonstration that a ready market exists, provided the sale takes place within a reasonable period of time after the net capital computation date. The reasonable period of time will be determined on a case-by-case basis, but will generally be within about 5 business days.

(SEC Staff to NYSE) (No. 90-11, December 1990)

(c)(2)(vii) DEFINITIONS; NET CAPITAL: NON-MARKETABLE SECURITIES (continued)

/011 Marketplace Blockage - 1% Exemption

The long market value of an inventory position that is subject to marketplace blockage requirements as defined under interpretation 15c3-1(c)(2)(vii)/01 and which is less than 1% of the broker-dealer's total long inventory market value, shall be exempt from the marketplace blockage charge.

For purposes of this interpretation, the total long inventory market value shall include only securities ordinarily subject to marketplace blockage charge (Index Arbitrage positions would therefore be excluded).

This exemption does not apply to securities that were underwritten or distributed by the broker-dealer.

(SEC Staff to NYSE) (No. 97-6, October 1997)
(SEC Staff to NYSE) (No. 07-4, April 2007)

/02 Municipal Securities Valuation

Municipal securities dealers should value their municipal securities inventories at market or, if such values are unavailable, at the lower of cost or estimated fair value for a period of 30 calendar days following settlement date. Thereafter, in the absence of further price or transaction data, the dealer should mark down or reduce the value of such positions by 5% of the original cost per month until these capital values decline to zero. At that point, the position should be considered a non-marketable security for net capital purposes. This valuation is for net capital purposes only. (Note: This interpretation replaces previous interpretation which exempted municipal securities from marketability provisions.)

A ready market may be established if the securities are collateral for a bank loan. (See interpretation 15c3-1(c)(11)(ii)/01, NYSE Rule 328(c) and NYSE Information Memo No. 80-66, dated December 31, 1980.)

(SEC Release No. 34-18737, May 12, 1982)

/03 Non-Recourse Indebtedness

No deduction need be taken on non-marketable securities up to the amount of fixed term non-recourse, indebtedness collateralized by these securities.

(SEC Staff to NYSE)

(c)(2)(vii) DEFINITIONS; NET CAPITAL: NON-MARKETABLE SECURITIES (continued)

/04 Non-Transferable, Restricted or Unregistered Securities as Collateral to a Sole Recourse Fixed Term Loan

Securities that do not have a ready market or cannot be publicly offered or sold because of statutory, regulatory or contractual arrangements or as a result of other restrictions must be deducted from net capital, unless:

1. Such securities are collateral to a fixed term loan and are the sole recourse of the creditor for nonpayment of the liability;

2. The broker-dealer and the creditor have entered into a written loan agreement which has a minimum term of three years and identifies the specific securities (which may not be substituted) that collateralize the loan;

3. The remaining life to maturity of the fixed term loan must be in excess of one year at the time of the net capital computation; a fixed term loan with a lesser remaining life to maturity cannot be used to obtain the net capital relief provided in this interpretation;

4. The portion of a fixed term loan where the remaining life to maturity is less than one year must be included in aggregate indebtedness; and

5. The loan agreement has been submitted to and has been found acceptable by the Designated Examining Authority before the broker-dealer may rely on this interpretation.

A broker-dealer is not required to apply a haircut charge on the value of the non-marketable securities pledged up to the amount of the fixed term loan proceeds received from the lender. However, the value of the non-marketable securities pledged in excess of the fixed term loan must be treated as a non-allowable asset for net capital purposes.

In accordance with interpretation 15c3-1(c)(11)(ii)/03 (Non-Transferable or Restricted Securities), a broker-dealer may not rely on this interpretation to establish a "ready market" as defined in SEA Rule 15c3-1(c)(11)(ii).

(SEC Letter to Warburg Paribus Becker, Inc., March 16, 1982)
(No. 88-16, October 1988)
(SEC Staff to NYSE) (No. 07-4, April 2007)

(c)(2)(vii) DEFINITIONS; NET CAPITAL: NON-MARKETABLE SECURITIES (continued)

/05 Non-Marketable Short Securities - Haircuts

The SEC staff has issued a no-action letter which states that the fair value (see interpretation 15c3-1(c)(2)(i)(B)(1)/01) of short securities that are not readily marketable shall be subject to a 40% haircut.

(SEC Letter to Power Securities Corporation, October 3, 1988)
(No. 89-6, June 1989)

/06 Marketability of Commercial Paper

Commercial paper, whether or not exempted from the registration requirement under section 3(a)(3) of the Securities Act, may be deemed to have a ready market under subparagraph (c)(2)(vii) of SEA Rule 15c3-1 and not be subject to a deduction of 100% of its carrying value, if the following conditions are met:

1. The commercial paper is not traded flat or in default as to principal or interest.

2. The commercial paper is not issued by a parent or an affiliated company of the broker-dealer.

3. The commercial paper is rated in one of the "two" highest categories by at least two of the nationally recognized statistical rating organizations ("NRSROs").

   If at any time, any of the two ratings is reduced below the two highest categories the broker-dealer will deduct from net worth, when computing net capital, 15% of the carrying value of the commercial paper. Any time after the thirtieth day subsequent to the date when any of the two ratings is reduced below the two highest categories, there shall be a deduction from net worth equal to 100% of the carrying value of the position.

4. The commercial paper is the subject of a commercial paper program which:

   a) is administered by an issuing and paying agent bank and there exists a dealer willing to make a market in said commercial paper, or

   b) is administered by a direct issuer pursuant to a direct placement program.

(SEC Letter to SIA, March 10, 1992) (No. 92-7, May 1992)

(c)(2)(vii) DEFINITIONS; NET CAPITAL: NON-MARKETABLE SECURITIES (continued)

/07 Marketability of Commercial Paper under Section 936 Market

Commercial paper, whether or not exempted from the registration requirement under section 3(a)(3) of the Securities Act, which is sold in Puerto Rico under the section 936 market, may be deemed to have a ready market under subparagraph (c)(2)(vii) of SEA Rule 15c3-1 and not be subject to a deduction of 100% of its carrying value if the following conditions are met:

1. The commercial paper is not traded flat or in default as to principal or interest.

2. The commercial paper is not issued by a parent or an affiliated company of the broker-dealer.

3. The purchase of the commercial paper by a corporation that is allowed a tax credit pursuant to section 936, constitutes, either (i) an investment under section 936(d)(2) of the Internal Revenue Code for the purpose of deriving "Qualified Possession Source Investment Income", or (ii) an investment in an "eligible activity" under section 6.2.4 of Regulation Number 3582 of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico and, in either instance, the principal and interest owed as a result of the commercial paper obligation are payable in the Commonwealth of Puerto Rico.

4. The commercial paper is rated investment grade by at least two NRSROs, or is absolutely and without condition guaranteed as to principal and interest by an institution whose commercial paper is rated in one of the two highest grades by at least two NRSROs.

   If at any time, any of the two ratings is reduced below the two highest categories the broker-dealer will deduct from net worth, when computing net capital, 15% of the carrying value of the commercial paper. Any time after the thirtieth day subsequent to the date when any of the two ratings is reduced below the two highest categories, there shall be a deduction from net worth equal to 100% of the carrying value of the position.

5. The commercial paper is the subject of a commercial paper program which:

   a) is administered by an issuing and paying agent bank and there exists a dealer willing to make a market in said commercial paper, or

   b) is administered by a direct issuer pursuant to a direct placement program.

(SEC Letter to SIA, March 10, 1992) (No. 92-7, May 1992)

(c)(2)(vii) DEFINITIONS; NET CAPITAL: NON-MARKETABLE SECURITIES (continued)

/08 Marketability of Certain Foreign and Domestic Securities

The SEC Division of Market Regulation will not recommend enforcement action to the Commission if broker-dealers, in computing their net capital apply the haircuts described below to the securities held in their proprietary and other accounts. For the purposes of this letter it is irrelevant whether the securities may be publicly offered or sold without registration under Section 5 of the Securities Act.

A. Foreign Securities - Sovereign Issued Debt

A debt security that: (1) is issued as a general obligation of a sovereign government; (2) has a fixed maturity date; (3) is not traded flat or in default as to principal or interest; and (4) is rated (implicitly or explicitly) in one of the four highest rating categories by at least two NRSROs may be treated in accordance with the haircut provisions set forth in paragraph (c)(2)(vi)(F) of SEA Rule 15c3-1.

B. Nonconvertible Debt Securities Issued by a Supranational Organization or a Domestic or Non-Domestic Issuer

A nonconvertible debt security that: (1) is issued by a supranational organization or a domestic or non-domestic issuer; (2) has a fixed rate of interest and fixed maturity date; (3) is not traded flat or in default as to principal or interest; and (4) is rated in one of the four highest rating categories by at least two NRSROs may be treated in accordance with the haircut provisions set forth in paragraph (c)(2)(vi)(F) of SEA Rule 15c3-1.

C. Convertible Debt Securities

A debt security that: (1) is issued by a domestic or non-domestic issuer; (2) has a fixed rate of interest and a fixed maturity date; (3) is not traded flat or in default as to principal or interest; (4) is convertible into an equity security; and (5) is rated in one of the four highest rating categories by at least two NRSROs or readily convertible within ninety days into a security that is deemed to have a ready market may be treated in accordance with the haircut provisions set forth in paragraph (c)(2)(vi)(G) of SEA Rule 15c3-1.

(c)(2)(vii) DEFINITIONS; NET CAPITAL: NON-MARKETABLE SECURITIES (continued)

/08 Marketability of Certain Foreign and Domestic Securities (continued)

D. Preferred Stock

Cumulative, nonconvertible preferred stock ranking prior to all other classes of stock of the same issuer that is: (1) issued by a domestic or non-domestic issuer; (2) rated in one of the four highest categories by at least two NRSROs; and (3) not in arrears as to dividends may be treated in accordance with the haircut provisions set forth in paragraph (c)(2)(vi)(H) of SEA Rule 15c3-1. Convertible preferred stock that is: (1) issued by a domestic or non-domestic issuer; (2) rated in one of the four highest rating categories by at least two NRSROs or readily convertible within ninety days into a security that is deemed to have a ready market; and (3) not in arrears as to dividends may be treated in accordance with the haircut provisions set forth in paragraph (c)(2)(vi)(J) of SEA Rule 15c3-1.

E. Securities Issued Under the Secondary Mortgage Enhancement Act of 1984

Debt securities that are issued under the Secondary Mortgage Enhancement Act of 1984 and rated in one of the two highest rating categories by at least one NRSRO may be treated in accordance with the haircut provisions set forth in paragraph (c)(2)(vi)(F) of SEA Rule 15c3-1.

(SEC Letter to SIA, June 12, 1992) (No. 92-12, December 1992)

(c)(2)(vii) DEFINITIONS; NET CAPITAL: NON-MARKETABLE SECURITIES (continued)

/09 Marketability of Money Market Instruments

The SEC Division of Market Regulation will not recommend enforcement action to the Commission if broker-dealers, in computing their net capital apply the haircuts described below to money market instruments held in their proprietary and other accounts under the circumstances described below.

I. MONEY MARKET INSTRUMENTS

The following proprietary positions may be deemed to have a ready market under subparagraph (c)(2)(vii) of SEA Rule 15c3-1 and not subject to a deduction of 100% of its carrying value, if one or more of the conditions set forth in paragraphs (A), (B) or (C), below are met.

A. negotiable certificates of deposit and bank deposit notes,

i. that are not issued by a parent or an affiliated company of the broker-dealer, and

ii. where the funds are deposited and payable in a major money market. (For list of major money markets, see note at end of this interpretation)

B. negotiable bankers acceptances and bills of exchange that,

i. are not issued or accepted by a parent or an affiliated company of the broker-dealer, and

ii. are issued or accepted by a bank when the obligation is booked and payable in a major money market.

Conditions:

A. The certificate of deposit or bank deposit note is issued or unconditionally guaranteed as to principal and interest, or the bankers acceptance or bill of exchange is issued or accepted as to principal and interest by:

1. a bank as defined in section 3(a)(6) of the Exchange Act or a building and loan or savings and loan institution, and such bank, building and loan or savings and loan institution is:

a) subject to supervision by a federal banking authority, and
b) rated investment grade by at least two of the nationally recognized statistical rating organizations ("NRSROs").

(c)(2)(vii) DEFINITIONS; NET CAPITAL: NON-MARKETABLE SECURITIES (continued)

/09 Marketability of Money Market Instruments (continued)

2. a bank is defined in section 3(a)(6) of the Exchange Act that:

a) is not rated,
b) has shareholders' equity of at least $400 million, and
c) is subject to supervision by a federal banking authority.

3. a building and loan or savings and loan institution that:

a) is not rated,
b) that is subject to supervision by a federal banking authority, and
c) has shareholders' equity of at least $500 million.

B. The certificate of deposit, bank deposit note, bankers acceptance or bill of exchange is rated investment grade by at least two NRSROs and is issued or accepted as to principal and interest by a foreign commercial bank,

1. that has shareholders' equity of at least US$1 billion, and

2. whose capital is subject to supervision by an authority of a sovereign national government where a major money market is located.

C. The certificate of deposit, bank deposit note, bankers acceptance or bill of exchange is issued or accepted as to principal and interest by a foreign commercial bank,

1. that has shareholders' equity of at least US$1.5 billion,

2. whose capital is subject to supervision by an authority of a sovereign national government where a major money market is located, and

3. that is not rated.

If a broker-dealer holds a combined position consisting of negotiable or non-negotiable certificates of deposit, bank deposit notes, bankers acceptances or bills of exchange issued or unconditionally guaranteed as to principal and interest, or accepted as to principal and interest by (i) a single bank as defined in section 3(a)(6) of the Exchange Act, or (ii) a single building and loan or savings and loan institution, or (iii) a single foreign commercial bank, which combined position is in the proprietary or other account of a broker-dealer for more than five business days, there shall be a deduction from net worth equal to 100% of the carrying value of that position exceeding 30% of the broker-dealer's net capital before the application of the adjustment set forth in subparagraph (c)(2)(vi) and Appendices A and B of SEA Rule 15c3-1.

(c)(2)(vii) DEFINITIONS; NET CAPITAL: NON-MARKETABLE SECURITIES (continued)

/09 Marketability of Money Market Instruments (continued)

II. SECTION 936 MARKET

Negotiable certificates of deposit and bank deposit notes ("obligations") which are sold in Puerto Rico for the section 936 market, may be deemed to have a ready market under subparagraph (c)(2)(vii) of SEA Rule 15c3-1 and not subject to a deduction of 100% of its carrying value, provided that the following conditions are met:

1. the obligations are not issued by a parent or an affiliated company of the broker-dealer, and

2. the purchase of the obligations by a corporation that is allowed a tax credit pursuant to section 936 or that is an "eligible institution" under Regulation Number 3582 of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico ("Reg. 3582"), constitutes, either

   a) an investment under section 936(d)(2) of the Internal Revenue Code for the purpose of deriving "Qualified Possession Source Investment Income," or

   b) an investment in an "eligible activity" under section 6.2.4 of Reg. 3582, and

   c) in either instance, the funds securing such obligations are deposited and payable in the Commonwealth of Puerto Rico, provided that one or more of the conditions set forth in paragraphs (A), (B) or (C) below are met.

Conditions:

A. The obligations are issued by, or backed, absolutely and without condition (as to principal and interest), by an irrevocable letter of credit issued by:

   1. a bank as defined in section 3(a)(6) of the Exchange Act or a building and loan or savings and loan institution which is:

      a) subject to supervision by a federal banking authority, and
      b) rated in one of the two highest grades by at least two NRSROs.

   2. a bank as defined in Section 3(a)(6) of the Exchange Act that:

      a) is not rated,
      b) has stockholders' equity of at least $400 million, and
      c) is subject to supervision by a federal banking authority.

(c)(2)(vii) DEFINITIONS; NET CAPITAL: NON-MARKETABLE SECURITIES (continued)

/09 Marketability of Money Market Instruments (continued)

3. a building and loan or savings and loan institution that:

a) is not rated,
b) has stockholders' equity of at least $500 million, and
c) is subject to supervision by a federal banking authority.

B. The obligations are backed absolutely and without condition (as to principal and interest) by an irrevocable letter of credit issued by a foreign commercial bank rated in one of the two highest grades by a least two NRSROs,

1. that has shareholders' equity of at least US$1 billion, and
2. whose capital is subject to supervision by an authority of a sovereign national government where a major money market is located.

C. The obligations are backed (as to principal and interest) by an irrevocable letter of credit issued by a Federal Home Loan Bank or an agency of the Federal Government of the U.S.

III. Non-negotiable certificates of deposit that would otherwise qualify for treatment under one or more of the provisions set forth in either sections I or II above, for which the only restriction relative to early withdrawal at any time prior to maturity is the forfeiture of interest may be included under subparagraph (c)(2)(vi)(E) of SEA Rule 15c3-1 if the broker-dealer takes an additional deduction for the amount of interest subject to forfeiture.

IV. With regard to money market instruments that are deemed to have a ready market under Section A and B above: if either of the ratings required to qualify a money market instrument as having a ready market is reduced below the two highest ratings categories, the broker-dealer holding such money market instruments will deduct from net worth, when computing net capital, 15% of the carrying value of the money market instruments. At the end of 30 days subsequent to the date when any of the two ratings is reduced below the two highest categories, if the broker-dealer continues to hold the position it must prove otherwise that the money market instruments have a ready market in order to include such position under subparagraph (c)(2)(vi)(E) of SEA Rule 15c3-1.

(SEC Letter to SIA, August 21, 1992) (No. 92-12, December 1992)

Note: For purpose of this interpretation 15c3-1(c)(2)(vii)/09 only, major money markets include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, United States and United Kingdom.

(c)(2)(vii) DEFINITIONS; NET CAPITAL: NON-MARKETABLE SECURITIES (continued)

/10 Marketability of Nonconvertible Debt Securities Which Are Not Highly Rated

The SEC Division of Market Regulation will not recommend enforcement action to the Commission if broker-dealers apply the haircuts described below to nonconvertible debt securities held in their proprietary accounts which are not rated in one of the four highest rating categories by at least two NRSROs provided the following conditions are met:

1. The securities can be publicly sold without registration with the Commission under Section 5 of the Securities Act of 1933, and

2. Current information concerning the issuer is available to the public. Current information is deemed to be available to the public if:

   a) The issuer filed with the Commission public reports consisting of the most recently required periodic financial report, or

   b) The issuer (provided it is the subject of a bankruptcy proceeding) filed with a bankruptcy court, public information that is sufficient to value the assets and liabilities of the issuer and such information is dated not more than six months prior to the date of the broker-dealer's capital computation.

The current information requirement will also be deem to be satisfied by the existence of current ratings by two NRSROs on any issuance of the issuer. A rating by an NRSRO is considered to be current if the NRSRO itself continues to hold out its rating for the issuance of the issuer. Non-investment grade nonconvertible debt securities shall be treated as follows:

1. The broker-dealer shall deduct from its net worth the following percentages applied to the greater of the gross long or the gross short market value of non-investment grade, nonconvertible debt securities' positions in each of the categories specified below:

   (a) An initial issuance of at least $100 million.....15%

   (b) An initial issuance of at least $75 million and less than $100 million.....20%

   (c) An initial issuance of at least $50 million and less than $75 million.....25%

(c)(2)(vii) DEFINITIONS; NET CAPITAL: NON-MARKETABLE SECURITIES (continued)

/10 Marketability of Nonconvertible Debt Securities Which Are Not Highly Rated (continued)

(d) An initial issuance of at least $20 million and less than $50 million.....…50%

(e) An initial issuance of less than $20 million or have been held in inventory for more than 90 days as the result of the failure to complete an underwriting .....…100%

Broker-dealers may not include the value of non-investment grade, nonconvertible debt securities, subject to the haircut percentages set forth above, in paragraph (c)(2)(vi)(J) of SEA Rule 15c3-1 for the purposes of netting long or short securities positions under paragraph (c)(2)(vi)(J).

2. The broker-dealer shall take an additional portfolio concentration charge on the securities in categories (b), (c) and (d) above, to the extent the market value of the greater of the gross total long or gross total short positions in categories (b), (c) and (d) combined exceeds 25 percent of the broker-dealer's tentative net capital. The portfolio concentration charge shall be 50 percent of the haircuts otherwise taken on that portion of the total market value of the securities in categories (b), (c) and (d) in excess of 25 percent of tentative net capital. This portfolio concentration charge may be reduced by any undue concentration charge computed in accordance with paragraph (c)(2)(vi)(M) of SEA Rule 15c3-1.

Securities with an initial issuance of less than $20 million will be deemed to be included in category (d) above if the issuer has another outstanding issue of non-investment grade, nonconvertible debt securities, which has an initial issuance of $50 million or more.

Rule 144A Debt securities are not deemed to have a ready market pursuant to this interpretation since they cannot be publicly sold.

(SEC Letter to SIA, February 14, 1994) (No. 94-5, May 1994) (No. 97-6, October 1997)

(c)(2)(vii) DEFINITIONS; NET CAPITAL: NON-MARKETABLE SECURITIES (continued)

/101 Portfolio Concentration Charge - Sample Computations

EXAMPLE 1:

HAIRCUT CATEGORY	LONG VALUE	SHORT VALUE	CAPITAL CHARGE
(b) 20%	$300,000,000	$55,000,000	$ 60,000,000
(c) 25%	150,000,000	27,000,000	37,500,000
(d) 50%	75,000,000	13,750,000	37,500,000
TOTAL	$525,000,000	$95,750,000	$135,000,000
1. Total LV (b) + (c) + (d) =			$525,000,000
2. Tentative Net Capital		$2,000,000,000	
3. Portfolio concentration		x25%	
4. Concentration threshold		$ 500,000,000	
5. Amount subject to concentration		$ 25,000,000	
Concentration charge*		12.86%	
CONCENTRATION CHARGE		$ 3,214,286	

* Formula for computing portfolio concentration haircut is 50% of total haircuts charges on categories (b), (c), and (d) divided by the greater of the gross total long or gross total short market value of the positions in these three categories. In the above example the total haircut charges 135m / 525m x .5 = 12.86%.

(c)(2)(vii) DEFINITIONS; NET CAPITAL: NON-MARKETABLE SECURITIES (continued)

/101 Portfolio Concentration Charge - Sample Computations (continued)

EXAMPLE 2:

HAIRCUT CATEGORY	LONG VALUE	SHORT VALUE	CAPITAL CHARGE
(b) 20%	$300,000,000	$55,000,000	$ 60,000,000
(c) 25%	27,500,000	150,000,000	37,500,000
(d) 50%	75,000,000	13,750,000	37,500,000
TOTAL	$402,500,000	$218,750,000	$135,000,000

1. Total LMV (b) + (c) + (d) =		$402,500,000
2. Tentative Net Capital	$2,000,000,000	
3. Portfolio concentration	x25%	
4. Concentration threshold	$500,000,000	
5. Amount subject to concentration $402,500,000 - $500,000,000 =	-0-	
Concentration charge*	16.77%	
CONCENTRATION CHARGE	-0-	

* Formula for computing portfolio concentration haircut is 50% of total haircuts charges on categories (b), (c), and (d) divided by the greater of the gross total long or short market values market value of the positions in these three categories. In the above example the total haircut charges 135m / 402.5m x .5 = 16.8%.

(SEC Staff to NYSE) (No. 95-3, May 1995)

(c)(2)(vii) DEFINITIONS; NET CAPITAL: NON-MARKETABLE SECURITIES (continued)

/11 Marketability of Restricted Securities

The SEC Division of Market Regulation will not recommend enforcement action to the Commission if broker-dealers, in computing their net capital, apply the haircuts described below to their proprietary restricted securities (as defined in Rule 144(a)(3) of the Securities Act of 1933) that cannot be publicly offered or sold.

1. Nonconvertible debt securities, convertible debt securities, preferred stock or convertible preferred stock:

   (a) rated in one of the two highest rating categories by at least one NRSRO, would be subject to a 15% haircut, if:

      1) the issuer, whether domestic or foreign, has long or short term ratings in one of the four highest rating categories by two NRSRO's on any debt issue, and

      2) the issue's single rating is at least equal to or higher than the above referenced investment grade rating on the domestic or foreign debt, and

      3) the NRSRO rating the issue is one of the organizations that rated the debt.

   (b) that are not rated by a NRSRO, or

   (c) that have a below-investment grade rating by a NRSRO, would be subject to a haircut of between 15% and 100%, based on initial issuance size as outlined in interpretation 15c3-1(c)(2)(vii)/10 for Nonconvertible Debt Securities Which Are Not Highly Rated, if:

      1) the issuer, whether domestic or foreign, has long or short term ratings in one of the four highest rating categories by two NRSROs on any debt issue that is pari passu with the issue described in (b) or (c) above, or

      2) the issuer has issued common stock included in the S&P 500 or in the FTSE World Index.

These securities would be subject to portfolio concentration charges as described in the Non Highly Rated Debt interpretation.

(c)(2)(vii) DEFINITIONS; NET CAPITAL: NON-MARKETABLE SECURITIES (continued)

/11 Marketability of Restricted Securities (continued)

2. Commercial paper issues with one NRSRO rating in one of the two highest rating categories would be subject to a 15% haircut if:

   (a) the issuer, whether domestic or foreign, has long term or short term ratings in one of the four highest rating categories by two NRSROs on any debt issue, and

   (b) the NRSRO rating the commercial paper is one of the organizations that rated the debt.

3. Securities which can be sold pursuant to an exemption from registration, regardless of rating, that are freely convertible into publicly traded securities meeting the ready market provisions of the net capital rule, would be subject to the haircut charges pursuant to SEA Rule 15c3-1(c)(2)(vi) on the security to which it is convertible.

   In addition to this haircut, an additional charge should be taken for the cost of conversion or the loss upon conversion.

These securities would be subject to the portfolio concentration charges described in the Non Highly Rated Debt interpretation.

4. Securities which can be sold pursuant to an exemption from registration and which have registration rights that provide for an exchange offer of the securities for registered securities are to be treated as readily marketable and subject to the respective capital charges set forth in the Non Highly Rated Debt interpretation, if:

   (a) the registered securities meet the other criteria of that interpretation, and

   (b) the company issuing the securities is listed in the S&P 500 or has an equity issue that is included in the FTSE World Index.

   If these securities are not registered within 90 days from the settlement date with the issuer, the haircuts shall increase by 25% each month until such time as the security is subject to a 100% deduction.

These securities would be subject to the portfolio concentration charges described in the Non Highly Rated Debt interpretation.

(c)(2)(vii) DEFINITIONS; NET CAPITAL: NON-MARKETABLE SECURITIES (continued)

/11 Marketability of Restricted Securities (continued)

5. Securities which can be sold pursuant to an exemption from registration would be subject to a contractual commitment deduction under SEA Rule 15c3-1(c)(2)(viii) of 30%. Any positions remaining in a firm's inventory after the date of the contractual commitment would be subject to the haircuts outlined above.

6. Consistent with the Non Highly Rated Debt interpretation, securities held in inventory longer than 90 days that were unsuccessfully offered pursuant to Rule 144A would be subject to a 100% capital charge.

7. The securities described above shall not include any security the transfer of which is subject to any contractual restriction or limitation imposed by the issuer or the seller of the security, if such restriction or limitation is not for the purpose of assuring compliance with the Federal securities laws or the securities laws of any state regarding the offer and sale of such securities in a transaction not involving a public offering. Such securities would be deemed non-marketable and subject to 100% deduction.

(SEC Letter to the SIA, March 15, 1996) (No. 96-3, April 1996)

(c)(2)(vii) DEFINITIONS; NET CAPITAL: NON-MARKETABLE SECURITIES (continued)

/12 Foreign Sovereign Debt Not Highly Rated

A nonconvertible foreign sovereign debt security held in a proprietary account that: 1) is issued as a general obligation of a sovereign government; 2) has a fixed maturity date; 3) is not traded flat or in default as to principal or interest; and 4) is not rated in one of the four highest categories ("investment grade rating") by at least two NRSROs shall be subject to the charges stated below if at least one of the following conditions is met:

(a) The foreign sovereign debt (denominated in either local currency or another currency, including collateralized and non-collateralized Brady bonds) is rated in one of the four highest ratings categories by one NRSRO and some satisfactory transaction volume can be demonstrated, or

(b) The foreign sovereign debt is rated in the next highest category below investment grade by one NRSRO and both substantial volume and transactions can be demonstrated to indicate liquidity exists.

The charges shall be:

1. Haircut Charge

The broker-dealer shall deduct 15 percent of the market value of the greater of the long or short positions in nonconvertible Foreign Sovereign Debt by country; and

2. Country Concentration

The broker-dealer shall take an additional 7 ½ percent country concentration charge on the market value of the net long or net short position of an individual country that is in excess of 10 percent of the broker-dealer's tentative net capital. Those securities for which a 100 percent capital deduction has already been taken should not be included in the country concentration charge; and

3. Portfolio Concentration

The broker-dealer shall take an additional 15 percent portfolio concentration charge on the sum of each country's net long or net short securities market value to the extent that this total exceeds 50 percent of the broker-dealer's tentative net capital. Those securities for which a 100 percent capital deduction has already been taken should not be included in the portfolio charge. In addition, this portfolio concentration charge may be reduced by any undue concentration charge computed in accordance with paragraph (c)(2)(vi)(M) of SEA Rule 15c3-1.

(SEC Staff to NYSE) (No. 99-5, May 1999)

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(c)(2) DEFINITIONS; NET CAPITAL (continued)

(viii) OPEN CONTRACTUAL COMMITMENTS

Deducting, in the case of a broker or dealer that has open contractual commitments (other than those option positions subject to Appendix (A), § 240.15c3-1a), the respective deductions as specified in paragraph (c)(2)(vi) of this section or Appendix (B), § 240.15c3-1b, from the value (which shall be the market value whenever there is a market) of each net long and each net short position contemplated by any open contractual commitment in the proprietary or other accounts of the broker or dealer.

(A) The deduction for contractual commitments in those securities that are treated in paragraph (c)(2)(vi)(J) of this section shall be 30 percent unless the class and issue of the securities subject to the open contractual commitment deduction are listed for trading on a national securities exchange or are designated as NASDAQ National Market System Securities.

/01 Deductions for Exchange Listed and NASDAQ NMS Securities

The decreased charge (15%, pursuant to paragraph (c)(2)(vi)(J)) for securities that are listed for trading on a national securities exchange or are designated as NASDAQ National Market System Securities does not apply to initial public offerings of securities.

(SEC Staff to NYSE) (No. 93-6, November 1993)

/02 Offerings in Debt Convertible into Exchange Listed or NASDAQ NMS Securities

Initial public offerings of debt securities which are immediately convertible into equity securities that are listed for trading on a national securities exchange or are designated NASDAQ National Market System securities may be treated as if they have been converted into the equity security and subject to the reduced 15% open contractual commitment charge. If the conversion results in a loss (the market value of the equity securities is less than the market value of the debt securities), an additional charge must be taken for the amount of the loss.

(SEC to NASD) (No. 93-6, November 1993)

(B) A broker or dealer that maintains in excess of $250,000 of net capital may add back to net worth up to $150,000 of any deduction computed under this paragraph (c)(2)(viii)(B).

/01 Application of $150,000 Addback

When a broker or dealer engages in more than one underwriting, the aggregate amount added back under SEA Rule 15c3-1(c)(2)(viii)(B) shall be the lessor of $150,000 or the contractual commitment charge taken.

(SEC Staff to NYSE) (No. 97-6, October 1997)

(c)(2)(viii) DEFINITIONS; NET CAPITAL: OPEN CONTRACTUAL COMMITMENTS (continued)

(C) The deduction with respect to any single commitment shall be reduced by the unrealized profit in such commitment, in an amount not greater than the deduction provided for by this paragraph (or increased by the unrealized loss), in such commitment, and in no event shall an unrealized profit on any closed transactions operate to increase net capital.

/01 Losses on Open Contractual Commitments

Unrealized losses on open contractual commitments are treated as charges in arriving at net worth and the debt/equity total. (See SEA Rule 15c3-1(c)(2)(i)(A).)

(SEC Staff to NYSE)

/02 Profits on Open Contractual Commitments

Unrealized profits on open contractual commitments are allowed to reduce haircuts but not to otherwise increase net worth or net capital.

(SEC Staff to NYSE)

/021 GNMA's - Unrealized Profits and Losses

The aggregate of all unrealized profits reduced by the aggregate of all unrealized losses on open GNMA transactions (including issued positions, commodity exchange futures, and TBA's) may reduce the aggregate of all haircuts related to such transactions. Any excess net unrealized profits may not operate to increase net capital.

(See interpretation 15c3-1(c)(2)(vi)(A)/02 for haircuts and interpretation 15c3-1(Appendix A)/02 for standbys in GNMA transactions.)

(SEC Staff to NYSE) (No. 76-3, February 1976)

/03 Haircuts on Contractual Commitments

Open contractual commitments are subject to the haircut percentage set forth in SEA Rule 15c3-1(c)(2)(vi). (See interpretation 15c3-1(c)(2)(vi)/01 for application of haircuts to combinations of open contractual commitment and actual positions.)

(SEC Staff to NYSE) (No. 77-2, June 1977)

(c)(2)(viii)(C) DEFINITIONS; NET CAPITAL: OPEN CONTRACTUAL COMMITMENTS (continued)

/031 Underwriting Commitments

Where a firm commitment is contingent upon the effectiveness of a registration statement the appropriate deductions will apply when the registration becomes effective.

Where securities underwritten are not subject to registration requirements deductions will be applied when the broker or dealer is irrevocably committed to the underwriting.

(SEC Staff to NYSE) (No. 84-9, November 1984)

/032 Offsetting Sale Commitments

Underwriting commitments may be reduced by confirmed sales. So called "indications of interest" received prior to the effective date of registration will not apply.

The Securities Act prohibits the making of a contract for sale until the registration has become effective.

(SEC Letter to NYSE, November 18, 1983) (No. 84-9, November 1984)

/04 Selling Group Participations

Haircuts need not be applied to best efforts selling group participations in firm commitment underwritings to the extent that the selling group member has an unconditional right evidenced by a written agreement with the underwriting participants to return any unsold securities.

Once the issue trades regular way, haircuts do not apply to unsold shares returned to the underwriter or participant no later than the settlement date of the issue.

$5,000 broker-dealers may not participate in firm commitment underwritings even on a best efforts basis.

(SEC Letter to NASD, December 15, 1976) (No. 83-2, April 1983)

/05 Removed (No. 97-5, September 1997)

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(c)(2) DEFINITIONS; NET CAPITAL (continued)

(ix) AGED FAILED TO DELIVER CHARGES

Deducting from the contract value of each failed to deliver contract that is outstanding five business days or longer (21 business days or longer in the case of municipal securities) the percentages of the market value of the underlying security that would be required by application of the deduction required by paragraph (c)(2)(vi) of this section. Such deduction, however, shall be increased by any excess of the contract price of the failed to deliver contract over the market value of the underlying security or reduced by any excess of the market value of the underlying security over the contract value of the failed to deliver contract, but not to exceed the amount of such deduction. The designated examining authority for the broker or dealer may, upon application of the broker or dealer, extend for a period up to 5 business days, any period herein specified when it is satisfied that the extension is warranted. The designated examining authority upon expiration of the extension may extend for one additional period of up to 5 business days, any period herein specified when it is satisfied that the extension is warranted.

/01 Undue Concentration Charges

Undue concentration charges do not apply against aged fails to deliver.

/02 Short Positions - Related to Fails to Deliver

If an aged fail to deliver relates to a proprietary short sale, the percentage deduction is 15% of the market value of the underlying security regardless of whether the proprietary short position is less than the long position or the computing broker-dealer is subject to the capital requirements of paragraph (a) of Rule 15c3-1. However, if the fail to deliver and related short positions are in securities other than those subject to subparagraph (c)(2)(vi)(J) of SEA Rule 15c3-1, the aged fail to deliver is subject to the haircut provisions of subparagraphs (c)(2)(vi)(A) - (I).

(SEC Letter to Mauney Company, December 11, 1975) (No. 76-4, April 1976)

/03 Securities Drafted to Another Broker-Dealer

Securities drafted to another broker-dealer to satisfy a fail to deliver are not subject to the aged fail to deliver deduction unless not accepted, in which case it would be aged from the original settlement date.

(SEC Letter to Prince, Langheinrich & Greer Inc., April 22, 1977)
(No. 79-4, March 1979)

(c)(2)(ix) DEFINITIONS; NET CAPITAL: AGED FAILED TO DELIVER CHARGES (continued)

/04 Continuous Net Settlement Systems

Where a clearing organization operates on a continuous settlement system and marks to market daily, open fails to deliver to the organization need not be aged and no deductions need be made by the broker-dealer under this provision of SEA Rule 15c3-1.

(SEC Staff to NYSE) (No. 81-9, December 1981)

/041 NSCC's RECAPS Program

Broker-dealers participating in the NSCC's Reconfirmation and Pricing Service (RECAPS) Program may treat the RECAPS settlement date and price as the date of the fail for aging and contract price purposes.

(SEC Letter to NSCC, June 11, 1987) (No. 89-6, June 1989)

/05 Municipal Securities Brokers' Broker

The extension provision is not available. Twenty-one business days as provided in subparagraph (a)(8) is deemed sufficient.

(SEC Letter to NASD, October 24, 1983) (No. 88-16, October 1988)

/06 Foreign Issued and Settled Securities Fail to Deliver - Haircut Alternative

Broker-dealers may, in lieu of the treatment required by this provision (c)(2)(ix) for aged fail to deliver of foreign issued, foreign settled securities, apply alternative procedures. In the event such alternative procedures are elected, the following treatment shall apply:

1. Five business days after settlement date (in accordance with the customary foreign settlement cycle), the broker-dealer shall take a proprietary haircut charge for the foreign issued, foreign settled securities failed to deliver pursuant to SEA Rule 15c3-1, reduced by the equity (or increased by the deficit) in the transaction on a mark-to-market basis. In those countries where settlement is on a seller's option basis, the settlement date for purposes of this computation will be considered to be a day not more than thirty calendar days from the trade date;

2. During the period from trade date until the aged failed to deliver charge is required to be taken, the broker-dealer shall take a concentration charge on a mark-to-market basis equal to 100 percent of the excess of all trade date based deficits with a single counterparty in excess of 10 percent of the broker-dealer's tentative net capital;

(c)(2)(ix) DEFINITIONS; NET CAPITAL: AGED FAILED TO DELIVER CHARGES (continued)

/06 Foreign Issued and Settled Securities Fail to Deliver - Haircut Alternative (continued)

3. In determining a required deduction, the broker-dealer may reduce such deficit by any margin or other deposit held by the broker-dealer in connection with such transaction with the same party and any net equity in all failed to receive transactions, on a trade date basis, with the same party;

4. In determining a required deduction, the broker-dealer may reduce such deficit by any margin calls issued by the broker-dealer, outstanding not more than two business days. A broker-dealer may take advantage of this provision regarding margin calls only if it has a written agreement with the customer regarding the issuance and satisfaction of margin calls;

5. The broker-dealer shall file a written notice with the national securities exchange or registered national securities association which is its designated examining authority of its intention to apply this alternative treatment instead of the requirements of subparagraph (c)(2)(ix) of SEA Rule 15c3-1;

6. The broker-dealer will maintain in its records a schedule of the current settlement cycle of each country in which it trades; and

7. The broker-dealer shall maintain and preserve separate records, in whatever form appropriate, detailing, by country, the total number of failed to receive and failed to deliver contracts, and the total contractual value of those contracts and transactions.

A "ready market" is deemed to exist with respect to certain foreign securities that satisfy the criteria discussed in interpretation 15c3-1(c)(11)(i)/02, which specifically includes (but is not limited to) securities listed on any of the principal exchanges in the major money markets outside the United State, i.e. –

Amsterdam	Frankfurt	London	Montreal	Sydney	Toronto
Brussels	Johannesburg	Luxembourg	Paris	Tokyo	Zurich

When foreign issued, foreign settled securities fail to deliver do not meet the SEC's criteria as readily marketable securities under SEA Rule 15c3-1(c)(11) (see interpretation 15c3-1(c)(11)(i)/02)) and such securities are traded on exchanges in the countries shown on the next page, the haircut charge to be applied shall be a multiple of the haircut charge for securities which meets the criteria for readily marketable securities. 1/

1/ This treatment has no effect on the ready market criteria set forth at subparagraph (c)(11) of SEA Rule 15c3-1.

(c)(2)(ix) DEFINITIONS; NET CAPITAL: AGED FAILED TO DELIVER CHARGES (continued)

/06 Foreign Issued and Settled Securities Fail to Deliver - Haircut Alternative (continued)

Australia	Federal Republic	Italy	Netherlands	South Africa
Austria	of Germany	Japan	Spain	New Zealand
Belgium	Finland	Norway	Sweden	Luxembourg
Canada	France	Malaysia	Portugal	Switzerland
Denmark	Hong Kong	Mexico	Singapore	United Kingdom

Outstanding From Settlement Date 2/	Deduction
5-29 calendar days	Standard proprietary haircut charge
30-59 calendar days	Twice standard proprietary haircut charge (but not greater than 30%)
60-89 calendar days	Four times standard proprietary haircut charge (but not greater than 60%)
90 or more calendar days	100% of market value

The market value of all other fails to deliver of foreign issued, foreign settled securities shall be deducted, in full, 5 business days after settlement date. 2/

2/ Settlement date for these purposes determined in accordance with Item 1 of this Interpretation.

(SEC Letter to SIA, June 5, 1989) (No. 89-9, July 1989)
(SEC Staff to NYSE) (No. 90-7, September 1990)

/07 Failed to Deliver Resulting from NYSE Rule 412(e) (ACATS) Customer Securities Account Transfers

Failed to deliver contracts resulting from the Automated Customer Account Transfer System (ACATS) which are identified as NYSE Rule "412 Fails" aged 5 business days or longer (21 business days or longer in the case of municipal securities) need not be subject to the net capital charges specified herein so long as they are carried in compliance with subparagraph (c), i.e., close outs within 10 days, and (f) i.e., exemptive provisions, of NYSE Rule 412. (See NYSE Rule 412 and interpretations in the NYSE Interpretation Handbook.)

(SEC Staff to NYSE) (No. 90-1, February 1990)

(c)(2)(ix) DEFINITIONS; NET CAPITAL: AGED FAILED TO DELIVER CHARGES (continued)

/08 Failed to Deliver Charges on Non-Marketable Securities

Broker-dealers can apply the following percentages on foreign and domestic non-marketable securities (as defined under SEA Rule 15c3-1(c)(2)(vii)) when calculating the haircut portion of the aged fail to deliver charges:

Days Failed to Deliver Contract Is Outstanding	Percentage Deduction
5 to 14 business days	15 percent
15 to 21 business days	50 percent
22 to 28 business days	75 percent
29 business days or more	100 percent

In addition, broker-dealers must increase the amount of the deduction set forth above by any excess of the contract price of the failed to deliver contract over the market value of the underlying security or reduce the deduction by any excess of the market value of the underlying security over the contract value of the failed to deliver contract, but not to exceed the amount of such deduction. Further, broker-dealers relying on the schedule must have the ability to demonstrate to appropriate staff of the Commission or the broker-dealer's designated examining authority that the firm has an adequate process for monitoring risk associated with aged fails.

(SEC Letter to SIA Capital Committee, July 13, 2001) (No. 02-3, February 2002)

/09 Fixed Income Clearing Corporation (FICC) – Fails to Deliver Not Aged

Government securities broker-dealers that are FICC Netting Members need not age open fails to deliver and comprehend deductions under the provisions of SEA Rule 15c3-1(c)(2)(ix), for trades processed through FICC's Netting System which operates on a continuous settlement basis that marks to the market daily.

(Department of the Treasury Letter to GSCC, November 22, 1989)
(SEC Staff to NYSE) (No. 05-8, April 2005)

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(c)(2) DEFINITIONS; NET CAPITAL (continued)

(x) BROKERS OR DEALERS CARRYING ACCOUNTS OF LISTED OPTIONS SPECIALISTS

(A) With respect to any transaction of a specialist in listed options, who is either not otherwise subject to the provisions of this section or is described in paragraph (c)(2)(vi)(N) of this section, for whose specialist account a broker or dealer acts as a guarantor, endorser, or carrying broker or dealer, such broker or dealer shall adjust its net worth by deducting as of noon of each business day the amounts computed as of the prior business day pursuant to § 240.15c3-1a. The required deductions may be reduced by any liquidating equity that exists in such specialist's market-maker account as of that time and shall be increased to the extent of any liquidating deficit in such account. Noon shall be determined according to the local time where the broker or dealer is headquartered. In no event shall excess equity in the specialist's market-maker account result in an increase of the net capital of any such guarantor, endorser, or carrying broker or dealer.

(B) Definitions. (1) The term listed option shall mean any option traded on a registered national securities exchange or automated facility of a registered national securities association.

(2) For purposes of this section, the equity in an individual specialist's market-maker account shall be computed by:

(i) Marking all securities positions long or short in the account to their respective current market values;

(ii) Adding (deducting in the case of a debit balance) the credit balance carried in such specialist's market-maker account; and

(iii) Adding (deducting in the case of short positions) the market value of positions long in such account.

(c)(2)(x) DEFINITIONS; NET CAPITAL: BROKERS OR DEALERS CARRYING ACCOUNTS OF LISTED OPTIONS SPECIALISTS (continued)

(C) No guarantor, endorser, or carrying broker or dealer shall permit the sum of the deductions required pursuant to § 240.15c3-1a in respect of all transactions in specialists' market-maker accounts guaranteed, endorsed, or carried by such broker or dealer to exceed 1,000 percent of such broker's or dealer's net capital as defined in § 240.15c3-1(c)(2) for any period exceeding three business days. If at any time such sum exceeds 1,000 percent of such broker's or dealer's net capital, then the broker or dealer shall:

(1) Immediately transmit telegraphic or facsimile notice of such event to the Division of Market Regulation in the headquarters office of the Commission in Washington, D.C., to the district or regional office of the Commission for the district or region in which the broker or dealer maintains its principal place of business, and to its examining authority designated pursuant to section 17(d) of the Act (15 U.S.C. 78q(d)) ("Designated Examining Authority"); and

(2) Be subject to the prohibitions against withdrawal of equity capital set forth in § 240.15c3-1(e) and to the prohibitions against reduction, prepayment, and repayment of subordination agreements set forth in paragraph (b)(11) of § 240.15c3-1d, as if such broker or dealer's net capital were below the minimum standards specified by each of those paragraphs.

(D) If at any time there is a liquidating deficit in a specialist's market-maker account, then the broker or dealer guaranteeing, endorsing, or carrying listed options transactions in such specialist's market-maker account may not extend any further credit in that account, and shall take steps to liquidate promptly existing positions in the account. This paragraph shall not prevent the broker or dealer from, upon approval by the broker's or dealer's Designated Examining Authority, entering into hedging positions in the specialist's market-maker account. The broker or dealer also shall transmit telegraphic or facsimile notice of the deficit and its amount by the close of business of the following business day to its Designated Examining Authority and the Designated Examining Authority of the specialist, if different from its own.

(E) Upon written application to the Commission by the specialist and the broker or dealer guaranteeing, endorsing, or carrying options transactions in such specialist's market-maker account, the Commission may approve upon specified terms and conditions lesser adjustments to net worth than those specified in § 240.15c3-1a.

(c)(2) DEFINITIONS; NET CAPITAL (continued)

(xi) BROKERS OR DEALERS CARRYING SPECIALISTS OR MARKET MAKERS ACCOUNTS

With respect to a broker or dealer who carries a market maker or specialist account, or with respect to any transaction in options listed on a registered national securities exchange for which a broker or dealer acts as a guarantor or endorser of options written by a specialist in a specialist account, the broker or dealer shall deduct, for each account carried or for each class or series of options guaranteed or endorsed, any deficiency in collateral required by subparagraph (a)(6) of this Rule.

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(c)(2) DEFINITIONS; NET CAPITAL (continued)

(xii) DEDUCTION FROM NET WORTH FOR CERTAIN UNDERMARGINED ACCOUNTS

Deducting the amount of cash required in each customer's or non-customer's account to meet the maintenance margin requirements of the Examining Authority for the broker or dealer, after application of calls for margin, marks to the market or other required deposits which are outstanding 5 business days or less.

/01 Reverse Repurchase Agreements – Rescinded (No. 06-5, June 2006)

/011 Reverse Repurchase Agreements

On reverse repurchase agreement transactions, the greater of the cash margin deficiency based on the margin requirements of the Designated Examining Authority described herein or the amount required by subparagraph (c)(2)(iv)(F) of SEA Rule 15c3-1 shall be deducted.

Cash reverse repurchase transactions in "exempted securities" as defined in Section 3(a)(12) of the Securities and Exchange Act of 1934, and cash reverse repurchase transactions in mortgage related securities as defined in Section 3(a)(41) of the Securities and Exchange Act of 1934, as well as certain non-equity securities described in NYSE Rule 431(a)(9) through 431(a)(11), may be maintained in a special account subject to the provisions of NYSE Rule 431(e)(2)(F), which provides that broker-dealers entering into transactions with "exempt accounts", as defined in NYSE Rule 431(a)(13), need not collect margin from such "exempt accounts", however are subject to the Exchange's capital requirements described in NYSE Rule 431(e)(2)(F), (G) and (H).

All other non-exempt accounts entering into cash reverse repurchase transactions are subject to the following minimum margin requirements:

- 1% to 6% of the current market value of U. S. Government obligations (See NYSE Rule 431(e)(2)(A));
- 7% of the current market value of all other exempted securities other than obligations of the United States (See NYSE Rule 431(e)(2)(B));
- 10% of the current market value in the case of investment grade debt securities (See NYSE Rule 431(e)(2)(C)(i)); and
- 20% of the current market value or 7% of the principal amount, whichever amount is greater, in the case of all other listed non-equity securities, and all other marginable non-equity securities as defined in NYSE Rule 431(a)(16) (See NYSE Rule 431(e)(2)(C)(ii)).

(SEC Staff to NYSE) (No. 06-5, June 2006)

(c)(2)(xii) DEFINITIONS; NET CAPITAL: DEDUCTION FROM NET WORTH FOR CERTAIN UNDERMARGINED ACCOUNTS (continued)

/02 Government National Mortgage Association (GNMA)

See Interpretation Handbook for treatment under NYSE Rule 43l(e)(2)(F)/04 through /047.

(No. 88-15, September l988)

/03 Regulation T Calls for Margin

Only calls for margin, which are outstanding five business days or less, may be applied in computing cash margin deficiencies under this provision.

(SEC Staff to NYSE) (No. 81-9, December l98l)
(SEC Staff to NYSE) (No. 06-5, June 2006)

/04 Non-Purpose Loans Collateralized by Certificates of Deposit

See interpretation 15c3-1(c)(2)(iv)(B)/10.

(c)(2)(xii) DEFINITIONS; NET CAPITAL: DEDUCTION FROM NET WORTH FOR CERTAIN UNDERMARGINED ACCOUNTS (continued)

/05 Credit Extended Upon Exercise of Employee Stock Option

When a broker-dealer exercises an employee stock option for a customer, it must have acknowledgement from the issuer that a freely transferable, readily salable and marketable security in negotiable form will be promptly delivered to the broker-dealer within 13 business days after exercise notice is given to the issuer (when acknowledgment is given by telephone, the condition should be restated in the transmittal to the issuer). The exercise shall be subject to the following:

1. When the security to be received from the exercise has been sold and is not received from the issuer within 13 business days after notice of exercise has been given, the position shall be subject to a cash margin deficiency charge computed without allowing any value for the security not received (and is subject to the buy-in provisions under SEA Rule 15c3-3(m) unless an extension of time is requested and approved under paragraph (n) of that rule);

2. When the security to be received from the exercise has not been sold and is not received within 13 business days after notice of exercise has been given, any related debit balance shall be treated as an unsecured debit for net capital purposes. (See interpretation 15c3-1(c)(2)(iv)(B)/12.)

(SEC Staff to NYSE) (No. 88-15, September 1988) (No. 97-6, October 1997)

/06 Credit Extended To Customers on Control or Restricted Stock

Credit extended to customers on control or restricted stock shall be subject to maintenance margin requirements of NYSE Rule 431(e)(8). Any resulting cash margin deficiencies should be charged pursuant this provision.

(SEC Staff to NYSE) (No. 92-1, January 1992)

/061 Customers Foreign Currency Options Collateralized by Letters of Credit

See interpretation 15c3-1(c)(2)(iv)(B)/013.

(c)(2)(xii) DEFINITIONS; NET CAPITAL: DEDUCTION FROM NET WORTH FOR CERTAIN UNDERMARGINED ACCOUNTS (continued)

/07 Maintenance Requirement for Proprietary Accounts Carried for Joint Back Office Broker-Dealers

Broker-dealers operating joint back offices and carrying proprietary accounts of other broker-dealers that are participants in the joint back office must maintain equity in such accounts at least equal to the haircut percentages provided under SEA Rule 15c3-1 subparagraphs (c)(2)(vi) (excluding subparagraph (c)(2)(vi)(M)) or Appendix A as appropriate. If the equity in the account is not equal to or greater than the total haircuts computed for the positions carried in the participant's account, the carrying broker-dealer must obtain additional allowable collateral or charge its own capital for the deficiency. No benefit may be taken by the carrying broker-dealer if equity in such accounts exceeds the required haircuts. If the participant's account liquidates to a deficit, the charge to the carrying broker will be for the sum of the deficit and the applicable haircuts.

(SEC Staff to NYSE) (No. 92-12, December 1992)
(No. 96-4, November 1996) (No. 97-5, September 1997)

(c)(2) DEFINITIONS; NET CAPITAL (continued)

(xiii) DEDUCTION FROM NET WORTH FOR INDEBTEDNESS COLLATERALIZED BY EXEMPTED SECURITIES

Deducting, at the option of the broker or dealer, in lieu of including such amounts in aggregate indebtedness, 4 percent of the amount of any indebtedness secured by exempted securities or municipal securities, if such indebtedness would otherwise be includable in aggregate indebtedness.

/01 Optional Treatment of Liabilities vs Municipal Collateral

The optional deduction applies to bank loans, fail to receive, securities loaned or other such liabilities includable in aggregate indebtedness which are collateralized by exempted or municipal securities.

(SEC Staff to NYSE) (No. 77-4, November 1977)

(xiv) DEDUCTION FROM NET WORTH FOR EXCESS DEDUCTIBLE AMOUNTS RELATED TO FIDELITY BOND COVERAGE

Deducting the amount specified by rule of the Examining Authority for the broker or dealer with respect to a requirement to maintain fidelity bond coverage.

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(c) DEFINITIONS (continued)

(3) EXEMPTED SECURITIES

The term "exempted securities" shall mean those securities deemed exempted securities by Section 3(a)(12) of the Securities Exchange Act of 1934 and rules thereunder.

(4) CONTRACTUAL COMMITMENTS

The term "contractual commitments" shall include underwriting, when issued, when distributed and delayed delivery contracts, the writing or endorsement of puts and calls and combinations thereof, commitments in foreign currencies, and spot (cash) commodities contracts, but shall not include uncleared regular way purchases and sales of securities and contracts in commodities futures. A series of contracts of purchase or sale of the same security conditioned, if at all, only upon issuance may be treated as an individual commitment.

(5) ADEQUATELY SECURED

Indebtedness shall be deemed to be adequately secured within the meaning of this section when the excess of the market value of the collateral over the amount of the indebtedness is sufficient to make the loan acceptable as a fully secured loan to banks regularly making secured loans to brokers or dealers.

(6) CUSTOMER

The term "customer" shall mean any person from whom, or on whose behalf, a broker or dealer has received, acquired or holds funds or securities for the account of such person, but shall not include a broker or dealer or a registered municipal securities dealer, or a general, special or limited partner or director or officer of the broker or dealer, or any person to the extent that such person has a claim for property or funds which by contract, agreement or understanding, or by operation of law, is part of the capital of the broker or dealer or is subordinated to the claims of creditors of the broker or dealer. Provided, however, That the term "customer" shall also include a broker or dealer, but only insofar as such broker or dealer maintains a special omnibus account carried with another broker or dealer in compliance with 12 CFR 220.10 of Regulation T under the Securities Exchange Act of 1934.

(c) DEFINITIONS (continued)

(7) NON-CUSTOMER

The term "non-customer" means a broker or dealer, registered municipal securities dealer, general partner, limited partner, officer, director and persons to the extent their claims are subordinated to the claims of creditors of the broker or dealer.

/01 Municipal Securities Dealers

A bank municipal securities dealer that does not transact its municipals business through a separately identifiable department or division and accordingly registers as an undivided entity, is a non-customer only with respect to its transactions as a municipal securities dealer.

(SEC Release No. 34-11969, January 2, 1976) (No. 76-2, February 1976)

(c)(7) DEFINITIONS; NON-CUSTOMER (continued)

/02 Foreign Banks as Brokers or Dealers

To be treated as a broker, the foreign bank must be engaged in the business of effecting transactions in securities for the account of others within the meaning of Section 3(a)(4) of the '34 Act.

To be treated as a dealer, the foreign bank must be engaged in the business of buying and selling securities for its own account, through a broker or otherwise, within the meaning of Section 3(a)(5) of the '34 Act.

In addition, to be treated as either a non-customer broker or a non-customer dealer, the foreign bank must not fall within the definition of "bank" set forth in Section 3(a)(6) of the '34 Act, which provides as follows:

- The term "bank" means (A) a banking institution organized under the laws of the United States, (B) a member bank of the Federal Reserve System, (C) any other banking institution, whether incorporated or not, doing business under the laws of any State or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising a fiduciary power similar to those permitted to national banks under Section 11(k) of the Federal Reserve Act, as amended, and which is supervised and examined by State or Federal authority having supervision over banks, and which is not operated for the purpose of evading the provisions of this title, and (D) a receiver, conservator, or other liquidating agent of any institution or firm included in clauses (A), (B) or (C) of this paragraph.

If the foreign bank falls within the above definition of a bank, it is to be treated as a customer for purposes of SEA Rules 15c3-1 and 15c3-3.

There are at least three forms of foreign banking operations that you may be doing business with (1) representative offices, (2) agencies and (3) branches. Agencies and branches are subject to certain reporting requirements of the Federal Reserve Board and some states have specific regulations concerning foreign bank entry and operation, including examination and supervision and may be required to be treated as customers. Representative offices generally do not conduct normal banking operations but merely act as liaison offices between the head office and its customers. Generally speaking, there are no state regulations as to examination and supervision of representative offices other than simple registration with the state in which business is being conducted. Representative offices may be eligible for treatment as a non-customer.

(SEC Letter to UBS-DB Corporation, March 5, 1977)
(SEC Staff to NYSE) (No. 78-2, May 1978)

(c) DEFINITIONS (continued)

(8) MARKET MAKER

The term "market maker" shall mean a dealer who, with respect to a particular security, (i) regularly publishes bona fide, competitive bid and offer quotations in a recognized inter-dealer quotation system; or (ii) furnishes bona fide competitive bid and offer quotations on request; and, (iii) is ready, willing and able to effect transactions in reasonable quantities at his quoted prices with other brokers or dealers.

/01 Broker-Dealer as Market Maker

A broker-dealer is not considered a market maker when entering a "bid" or an "offer" quotation in an inter-dealer quotation service in response to a customer's order.

A broker-dealer is considered a market maker when entering an inter-dealer quotation service with either "OW - BW" or its name, if it furnishes bona fide competitive quotations on request. Other factors to be considered are trading activity and its position in the security in question. The burden of proof is on the broker-dealer to demonstrate that it is not making a market.

In addition to "NASDAQ" and the "NQB" Pink Sheets, other quotations in an inter-dealer quotation service may constitute a bona fide market. Discretion should be used in those instances where the market appears to be limited or regional. A determination should be made regarding depth of the market and the source of the quotation.

(SEC Staff to NASD)

(c) DEFINITIONS (continued)

(9) PROMPTLY TRANSMIT AND DELIVER

A broker or dealer is deemed to "promptly transmit" all funds and to "promptly deliver" all securities within the meaning of paragraphs (a)(2)(i) and (a)(2)(v) of this section where such transmission or delivery is made no later than noon of the next business day after the receipt of such funds or securities; provided, however, that such prompt transmission or delivery shall not be required to be effected prior to the settlement date for such transaction.

(10) PROMPTLY FORWARD

A broker or dealer is deemed to "promptly forward" funds or securities within the meaning of paragraph (a)(2)(i) of this section only when such forwarding occurs no later than noon of the next business day following receipt of such funds or securities.

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(c) DEFINITIONS (continued)

(11) READY MARKET

(i) The term "ready market" shall include a recognized established securities market in which there exists independent bona fide offers to buy and sell so that a price reasonably related to the last sales price or current bona fide competitive bid and offer quotations can be determined for a particular security almost instantaneously and where payment will be received in settlement of a sale at such price within a relatively short time conforming to trade custom.

/01 Initial Distribution Period

A ready market is deemed to exist during the initial distribution period of a taxable corporate debt offering. The securities should be valued at their public offering price less the dealer discount. If a market for the securities does not develop shortly after the initial distribution period, a ready market would be deemed to exist only under the conditions described in SEA Rule 15c3-1(c)(11)(ii).

(SEC Letter to the Ohio Company, December 15, 1975)

/02 Foreign Securities

A ready market will be deemed to exist with respect to foreign securities if they are either:

1. Equity securities of a foreign issuer that are listed on the FTSE World Index;

2. Securities that meet the marketability criteria of either interpretations 15c3-1(c)(2)(vii)/08 (Marketability of Certain Foreign and Domestic Securities), or 15c3-1(c)(2)(vii)/09 (Marketability of Money Market Instruments), or

3. Securities, bankers acceptances and bankers deposit notes of a foreign issuer that have been accepted as collateral for a loan by any major financial institution (including foreign banks) where the broker or dealer is able to demonstrate to the satisfaction of the Designated Examining Authority and the Commission that such securities adequately secure such loans. (See NYSE Rule 328(c) for further requirements.)

(SEC Staff to NYSE) (No. 92-12, December 1992)
(SEC Letter to SIA, August 13, 1993) (No. 93-5, September 1993)
(No. 93-6, November 1993)
(SEC Staff to NYSE) (No. 01-3, March 2001)

(c)(11)(i) DEFINITIONS; READY MARKET (continued)

/021 Mexican Stock Exchange Securities (MSE)

Broker-dealers may treat equities listed on the Mexican Stock Exchange (MSE) that are included in the FT-Actuaries Mexico Index ("FT-A Mexico Index") as having a ready market.

(SEC Letter to Comision Nacional de Valores, August 28, 1992)
(No. 92-12, December 1992)

/03 National Daily Quotation Service, BW-OW Quotes

Where Bid Wanted - Offer indications published in National Daily Quotation Service are the only available source of market value, limited market provisions under subparagraphs (K)(i) or (K)(ii) may apply under the following circumstances:

1. The broker-dealer can show that two or three or more market makers (other than the computing broker-dealer) in the quotation sheets, even if the market makers do not display actual quotations in the sheets; and

2. The broker-dealer can show the existence of bona fide inter-dealer trades within five business days before or after the date of valuation. The trades must be of sufficient volume to justify a reasonable belief that the price used would support the liquidation of the entire position at or near that price.

(SEC Letter to NASD, June 21, 1985)

/04 Ohio Dealer Data Service, Inc. - Not a Ready Market

The Ohio Dealer Data Service, Inc. is not recognized as an established securities market nor does it qualify as an inter-dealer quotation system under (c)(2)(vi)(K).

(SEC Letter to Pierre R. Smith & Co., August 19, 1986)
(No. 88-20, December 1988)

/05 Ready Market of Commercial Paper

See interpretation 15c3-1(c)(2)(vii)/06 for ready market criteria.

/06 Ready Market of Commercial Paper under Section 936 Market

See interpretation 15c3-1(c)(2)(vii)/07 for ready market criteria.

(c)(11) DEFINITIONS; READY MARKET (continued)

(ii) A "ready market" shall also be deemed to exist where securities have been accepted as collateral for a loan by a bank as defined in Section 3(a)(6) of the Securities Exchange Act of 1934 and where the broker or dealer demonstrates to its Examining Authority, that such securities adequately secure such loans as that term is defined in subparagraph (c)(5) of this section.

See requirements under NYSE Rule 328(c) and NYSE Information Memo No. 80-66, dated December 31, 1980.

/01 Securities Collateralizing Bank Loan

Bank loan collateral may be treated as having a ready market for purposes of this subsection only if the securities are actually adequately collateralizing an outstanding bank loan.

(SEC Letter to Lex Jolly & Co. Inc., May 15, 1976) (No. 77-2, June 1977)

/011 Value to be Included

Where "ready market" is based on collateral value of securities collateralizing a bank loan, the amount to be included will be the lower of the amount of the loan or fair market value of the security less the applicable haircut.

(SEC Staff to NYSE) (No. 86-8, August 1986)

/02 Repurchase Agreements

Sale of securities under a repurchase agreement will not serve to establish a "ready market" under this provision.

(SEC Staff to NYSE) (No. 81-3, July 1981)

/03 Non-Transferable or Restricted Securities

Securities which cannot be publicly offered or sold because of statutory, regulatory or contractual arrangements or other restrictions may not be considered as having a "ready market" under this provision. The securities must be fully transferable.

(SEC Staff to NYSE) (No. 81-3, July 1981)

(c)(11)(ii) DEFINITIONS; READY MARKET (continued)

/04 Net Capital Treatment of Securities Positions In Suspended Securities

The net capital treatment for suspended securities positions, transactions, and obligations are as follows:

1. Long proprietary positions and collateral held for Secured Demand Note(s) are non-allowable assets.

2. Short proprietary positions are to be valued at the last sale prior price prior to suspension. The broker-dealer shall reduce its net capital by the applicable haircut deduction (the haircut percentage that would have been applied prior to the suspension) on the presumed market value of the short proprietary position.

3. Fails to Receive and uncompleted customer's sale transactions shall be valued at the original contract price.

4. Fails to Deliver are non-allowable assets, until collected or the suspension is lifted.

(Letter from SEC Staff of DMR to NASD, June 8, 1973) (SEC Release No. 10209)

(NEXT PAGE IS 781)

(c) DEFINITIONS (continued)

(12) EXAMINING AUTHORITY

The term "Examining Authority" of a broker or dealer shall mean for the purposes of 17 CFR 240.15c3-1 and 240.15c3-1a-d the national securities exchange or national securities association of which the broker or dealer is a member of, if the broker or dealer is a member of more than one such self-regulatory organization, the organization designated by the Commission as the Examining Authority for such broker or dealer, or if the broker or dealer is not a member of any such self-regulatory organization, the Regional Office of the Commission where such broker or dealer has its principal place of business.

(c) DEFINITIONS (continued)

(13) ENTITIES THAT HAVE A PRINCIPAL REGULATOR

(i) For purposes of §240.15c3-1e and §240.15c3-1g, the term "entity that has a principal regulator" shall mean a person (other than a natural person) that is not a registered broker or dealer (other than a broker or dealer registered under section 15(b)(11) of the Act (15 U.S.C. 78o(b)(11)), provided that the person is:

(A) An insured depository institution as defined in section 3(c)(2) of the Federal Deposit Insurance Act (12 U.S.C. 1813(c)(2));

(B) Registered as a futures commission merchant or an introducing broker with the Commodity Futures Trading Commission;

(C) Registered with or licensed by a State insurance regulator and issues any insurance, endowment, or annuity policy or contract;

(D) A foreign bank as defined in section 1(b)(7) of the International Banking Act of 1978 (12 U.S.C. 3101(7)) that has its headquarters in a jurisdiction for which any foreign bank has been approved by the Board of Governors of the Federal Reserve System to conduct business pursuant to the standards set forth in 12 CFR 211.24(c), provided such foreign bank represents to the Commission that it is subject to the same supervisory regime as the foreign bank previously approved by the Board of Governors of the Federal Reserve System;

(E) Not primarily in the securities business, and the person is:

(1) A corporation organized under section 25A of the Federal Reserve Act (12 U.S.C. 611 through 633); or

(2) A corporation having an agreement or undertaking with the Board of Governors of the Federal Reserve System under section 25 of the Federal Reserve Act (12 U.S.C. 601 through 604a); or

(F) A person that the Commission finds is another entity that is subject to comprehensive supervision, has in place appropriate arrangements so that information that the person provides to the Commission is sufficiently reliable for the purposes of determining compliance with §240.15c3-1e and §240.15c3-1g, and it is appropriate to consider the person to be an entity that has a principal regulator considering all relevant circumstances, including the person's mix of business.

(c)(13) DEFINITIONS; ENTITIES THAT HAVE A PRINCIPAL REGULATOR (continued)

(ii) For purposes of §240.15c3-1e, §240.15c3-1g, §240.17h-1T, and §240.17h2T, the term "ultimate holding company that has a principal regulator" shall mean a person (other than a natural person) that:

(A) Is a financial holding company or a company that is treated as a financial holding company under the Bank Holding Company Act of 1956 (12 U.S.C. 1840 et seq.), or

(B) The Commission determines to be an ultimate holding company that has a principal regulator, if that person is subject to consolidated, comprehensive supervision; there are in place appropriate arrangements so that information that the person provides to the Commission is sufficiently reliable for the purposes of determining compliance with §240.15c3-1e and §240.15c3-1g; and it is appropriate to consider the person to be an ultimate holding company that has a principal regulator in view of all relevant circumstances, including the person's mix of business.

(c) DEFINITIONS (continued)

(14) MUNICIPAL SECURITIES

The term "municipal securities" shall mean those securities included within the definition of "municipal securities" in Section 3(a)(29) of the Securities Exchange Act of 1934.

(15) TENTATIVE NET CAPITAL

The term "tentative net capital" shall mean the net capital of a broker or dealer before deducting the securities haircuts computed pursuant to paragraph (c)(2)(vi) of this section and the charges on inventory computed pursuant to Appendix B to this section (§ 240.15c3-1b). However, for purposes of paragraph (a)(5) of this section, the term "tentative net capital" means the net capital of an OTC derivatives dealer before deducting the charges for market and credit risk as computed pursuant to Appendix F to this section (§ 240.15c3-1f) or paragraph (c)(2)(vi) of this section, if applicable, and increased by the balance sheet value (including counterparty net exposure) resulting from transactions in eligible OTC derivative instruments which would otherwise be deducted by virtue of paragraph (c)(2)(iv) of this section. For purposes of paragraph (a)(7) of this section, the term "tentative net capital" means the net capital of the broker or dealer before deductions for market and credit risk computed pursuant to §240.15c3-1e or paragraph (c)(2)(vi) of this section, if applicable, and increased by the balance sheet value (including counterparty net exposure) resulting from transactions in derivative instruments which would otherwise be deducted by virtue of paragraph (c)(2)(iv) of this section. Tentative net capital shall include securities for which there is no ready market, as defined in paragraph (c)(11) of this section, if the use of mathematical models has been approved for purposes of calculating deductions from net capital for those securities pursuant to §240.15c3-1e.

(c) DEFINITIONS (continued)

(16) INSOLVENT

For the purposes of this section, a broker or dealer is insolvent if the broker or dealer:

(i) Is the subject of any bankruptcy, equity receivership proceeding or any other proceeding to reorganize, conserve, or liquidate such broker or dealer or its property or is applying for the appointment or election of a receiver, trustee, or liquidator or similar official for such broker or dealer or its property;

(ii) Has made a general assignment for the benefit of creditors;

(iii) Is insolvent within the meaning of section 101 of title 11 of the United States Code, or is unable to meet its obligations as they mature, and has made an admission to such effect in writing or in any court or before any agency of the United States or any State; or

(iv) Is unable to make such computations as may be necessary to establish compliance with this section or with § 240.15c3-3.

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(d) DEBT-EQUITY REQUIREMENTS

No broker or dealer shall permit the total of outstanding principal amounts of its satisfactory subordination agreements (other than such agreements which qualify under this paragraph (d) as equity capital) to exceed 70% of its debt-equity total, as hereinafter defined for a period in excess of 90 days or for such longer period which the Commission may, upon application of the broker or dealer, grant in the public interest or for the protection of investors. In the case of a corporation the debt-equity total shall be the sum of its outstanding principal amounts of satisfactory subordination agreements, par or stated value of capital stock, paid in capital in excess of par, retained earnings, unrealized profit and loss or other capital accounts. In the case of a partnership, the debt-equity total shall be the sum of its outstanding principal amounts of satisfactory subordination agreements, capital accounts of partners (exclusive of such partners' securities accounts) subject to the provisions of paragraph (e) of this section, and unrealized profit and loss. In the case of a sole proprietorship, the debt-equity total shall include the sum of its outstanding principal amounts of satisfactory subordination agreements, capital accounts of the sole proprietorship and unrealized profit and loss. Provided, however, that a satisfactory subordination agreement entered into by a partner or stockholder which has an initial term of at least three years and has a remaining term of not less than 12 months shall be considered equity for the purposes of this paragraph (d) if: (1) it does not have any of the provisions for accelerated maturity provided for by subparagraphs (b)(9)(i), (b)(10)(i) or (b)(10)(ii) of Appendix (D), 17 CFR 240.15c3-1d, and is maintained as capital subject to the provisions restricting the withdrawal thereof required by paragraph (e) of this section or (2) the partnership agreement provides that capital contributed pursuant to a satisfactory subordination agreement as defined in Appendix (D), 17 CFR 240.15c3-1d, shall in all respects be partnership capital subject to the provisions restricting the withdrawal thereof required by paragraph (e) of this section.

/01 Debt-Equity Subordination Agreements

The debt-equity total includes satisfactory subordination agreements as defined in Appendix (D), and net worth computed under generally accepted accounting principles adjusted by unrealized profits and losses (if this adjustment has not already been made), and by the write-off of the time value of any unlisted option, long or short. (The time value is the excess of the unamortized cost or proceeds of the option over the in the money amount.)

(SEC Staff to NYSE)

(d) DEBT-EQUITY REQUIREMENTS (continued)

/02 Partners' Subordinations

A contribution under a satisfactory subordination agreement which is to be considered as capital under a partnership agreement does not have to have an initial term of at least three years and a remaining term of not less than one year for it to be considered equity. However, if the subordination agreement is separate from the partnership agreement, the time limits will apply and may not be satisfied by automatic rollover provisions.

(SEC Staff to NYSE) (No. 79-4, March 1979)

/03 Equity Subordination

The following are all the conditions which must be met for a subordinated liability to be considered as equity in the debt-equity total:

- Lender is a partner or stockholder,
- Subordination agreement has initial term of 3 years,
- Subordination agreement has remaining term of l year,
- Lender cannot accelerate the maturity of the liability as described in Appendix D(b)(9)(i) and (b)(10),
- Liability is subject to the withdrawal restrictions of Rule 15c3-1(e), and
- It is in all other respects a satisfactory subordination as defined in Appendix D.

For satisfactory subordination agreements contributed as capital under a partnership agreement see interpretation 15c3-1(d)/02 above.

A subordination agreement entered into by an officer of a corporation may not be considered as equity irrespective of maturity, unless the officer is a stockholder (regardless of size of holding).

Satisfactory subordination agreements entered into by banks, institutions and vendors are not considered equity for the purposes of the debt-equity requirement. They are considered debt.

(SEC Staff to NASD) (No. 77-2, June 1977)

(d) DEBT-EQUITY REQUIREMENTS (continued)

/031 Limited Partner Subordination

Limited partner subordinations may be included as equity in computing debt to equity ratio provided the conditions specified for such treatment in subparagraph (d) are satisfied. However, there should be assurance that the limited partner is adequately informed as to the operational and financial condition of the business.

(SEC Staff to NYSE) (No. 88-20, November 1988)

/04 Death or Retirement

A subordinated loan contributed by a partner or stockholder for an initial term of three years and a remaining term of more than one year should, upon his death or retirement, continue to be treated as equity. It may be treated as equity even in the last year of its term provided it is to be renewed. Once it is renewed, it is treated as debt.

/05 Non-conforming Subordinations

Liabilities which are effectively subordinated to the claims of creditors but which are not subject to a satisfactory subordination agreement are disregarded for purposes of the debt-equity ratio.

(SEC Staff to NYSE) (No. 76-4, April 1976)

/06 Discretionary Liabilities

See interpretation 15c3-1(c)(2)/02.

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(e) LIMITATION ON WITHDRAWAL OF EQUITY CAPITAL

(1) NOTICE PROVISIONS RELATING TO LIMITATIONS ON THE WITHDRAWAL OF EQUITY CAPITAL

No equity capital of the broker or dealer or a subsidiary or affiliate consolidated pursuant to Appendix C (17 CFR 240.15c3-1c) may be withdrawn by action of a stockholder or a partner or by redemption or repurchase of shares of stock by any of the consolidated entities or through the payment of dividends or any similar distribution, nor may any unsecured advance or loan be made to a stockholder, partner, sole proprietor, employee or affiliate without written notice given in accordance with paragraph (e)(1)(iv) below:

(i) Two business days prior to any withdrawals, advances or loans if those withdrawals, advances or loans on a net basis exceed in the aggregate in any 30 calendar day period, 30 percent of the broker or dealer's excess net capital. A broker or dealer, in an emergency situation, may make withdrawals, advances or loans that on a net basis exceed 30 percent of the broker or dealers excess net capital in any 30 day calendar day period without giving the advance notice required by this paragraph, with the prior approval of its Examining Authority. Where a broker or dealer makes a withdrawal with the consent of its Examining Authority, it shall in any event comply with paragraph (e)(1)(ii) of this section, or

(ii) Two business days after any withdrawals, advances or loans if those withdrawals, advances or loans on a net basis exceed in the aggregate in any 30 calendar day period, 20 percent of the broker or dealer's excess net capital.

(iii) The paragraph (e)(1) does not apply to:

(A) Securities or commodities transactions in the ordinary course of business between a broker or dealer and an affiliate where the broker or dealer makes payment to or on behalf of such affiliate for such transaction and then receives payment from such affiliate for the securities or commodities transaction within two business days from the date of the transaction; or

(B) Withdrawals, advances or loans which in the aggregate in any thirty calendar day period, on a net basis, equal $500,000 or less.

(iv) Each required notice shall be effective when received by the Commission in Washington, D.C., the regional office of the Commission for the region in which the broker or dealer has its principal place of business, the broker or dealer's Examining Authority and the Commodity Futures Trading Commission if such broker or dealer is registered with that Commission.

(e) LIMITATION ON WITHDRAWAL OF EQUITY CAPITAL (continued)

(2) LIMITATIONS ON WITHDRAWAL OF EQUITY CAPITAL

No equity capital of the broker or dealer or a subsidiary or affiliate consolidated pursuant to Appendix C (17 CFR 240.15c3-1c) may be withdrawn by action of a stockholder or a partner or by redemption or repurchase of shares of stock by any of the consolidated entities or through the payment of dividends or any similar distribution, nor may any unsecured advance or loan be made to a stockholder, partner, sole proprietor, employee or affiliate, if after giving effect thereto and to any other such withdrawals, advances or loans and any Payments or Payment Obligations (as defined in Appendix D (17 CFR 240.15c3-1(d)) under satisfactory subordination agreements which are scheduled to occur within 180 days following such withdrawal, advance or loan if:

(i) The broker or dealer's net capital would be less than 120 percent of the minimum dollar amount required by paragraph (a) of this section;

(ii) The broker-dealer is registered as a futures commission merchant, its net capital would be less than 7 percent of the funds required to be segregated pursuant to the Commodity Exchange Act and the regulations thereunder (less the market value of commodity options purchased by option customers on or subject to the rules of a contract market, each such deduction not to exceed the amount of funds in the option customer's account):

(iii) The broker-dealer's net capital would be less than 25 percent of deductions from net worth in computing net capital required by paragraphs (c)(2)(vi), and Appendix A of this section, unless the broker or dealer has the prior approval of the Commission to make such withdrawal;

(iv) The total outstanding principal amounts of satisfactory subordination agreements of the broker or dealer and any subsidiaries or affiliates consolidated pursuant to Appendix C (17 CFR 240.15c3-1c)(other than such agreements which qualify as equity under paragraph (d) of this section) would exceed 70% of the debt-equity under paragraph (d) of this section;

(v) The broker or dealer is subject to the aggregate indebtedness limitations of paragraph (a) of this section, the aggregate indebtedness of any of the consolidated entities exceeds 1000 percent of its net capital; or

(vi) The broker or dealer is subject to the alternative net capital requirement of paragraph (a) of this section, its net capital would be less than 5 percent of aggregate debit items computed in accordance with 17 CFR 240.15c3-3a.

(e) LIMITATION ON WITHDRAWAL OF EQUITY CAPITAL (continued)

(3) TEMPORARY RESTRICTIONS ON WITHDRAWAL OF NET CAPITAL

(i) The Commission may by order restrict, for a period of up to twenty business days, any withdrawal by the broker or dealer of equity capital or unsecured loan or advance to a stockholder, partner, sole proprietor, member, employee or affiliate under such terms and conditions as the Commission deems necessary or appropriate in the public interest or consistent with the protection of investors if the Commission, based on the information available, concludes that such withdrawal, advance or loan may be detrimental to the financial integrity of the broker or dealer, or may unduly jeopardize the broker or dealer's ability to repay its customer claims or other liabilities which may cause a significant impact on the markets or expose the customers or creditors of the broker or dealer to loss without taking into account the application of the Securities Investor Protection Act of 1970.

(ii) An order temporarily prohibiting the withdrawal of capital shall be rescinded if the Commission determines that the restriction on capital withdrawal should not remain in effect. A hearing on an order temporarily prohibiting the withdrawal of capital will be held within two business days from the date of the request in writing by the broker or dealer.

(e) LIMITATION ON WITHDRAWAL OF EQUITY CAPITAL (continued)

(4) MISCELLANEOUS PROVISIONS

(i) Excess net capital is that amount in excess of the amount required under paragraph (a). For the purposes of paragraphs (e)(1) and (e)(2), a broker or dealer may use the amount of excess net capital and deductions required under paragraphs (c)(2)(vi) and Appendix A of this section reported in its most recently required filed Form X-17A-5 for the purposes of calculating the effect of a projected withdrawal, advance or loan relative to excess net capital or deductions. The broker or dealer must assure itself that the excess net capital or the deductions reported on the most recently required filed Form X-17A-5 have not materially changed since the time such report was filed.

(ii) The term equity capital includes capital contributions by partners, par or stated value of capital stock, paid-in capital in excess of par, retained earnings or other capital accounts. The term equity capital does not include securities in the securities accounts or partners and balances in limited partners' capital accounts in excess of their stated capital contributions.

(iii) Paragraphs (e)(1) and (e)(2) of this section shall not preclude a broker or dealer from making required tax payments or preclude the payment to partners of reasonable compensation, and such payments shall not be included in the calculation of withdrawals, advances, or loans for purposes of paragraphs (e)(1) and (e)(2).

(iv) For the purposes of this paragraph (e), any transaction between a broker or dealer and stockholder, partner, sole proprietor, employee or affiliate that results in a diminution of the broker or dealer's net capital shall be deemed to be an advance or loan of net capital.

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