

**ADJUSTMENTS TO NET WORTH AND AGGREGATE INDEBTEDNESS**  
**FOR CERTAIN COMMODITIES TRANSACTIONS**  
**SEA Rule 15c3-1b (Appendix B)**

(a) Every broker or dealer in computing net capital pursuant to 17 CFR 240.15c3-1 shall comply with the following:

(1) Where a broker or dealer has an asset or liability which is treated or defined in paragraph (c) of 17 CFR 240.15c3-1, the inclusion or exclusion of all or part of such asset or liability for the computation of aggregate indebtedness and net capital shall be in accordance with paragraph (c) of 17 CFR 240.15c3-1, except as specifically provided otherwise in this Appendix B. Where a commodity related asset or liability is specifically treated or defined in 17 CFR 1.17 and is not generally or specifically treated or defined in 17 CFR 240.15c3-1 or this Appendix B, the inclusion or exclusion of all or part of such asset or liability for the computation of aggregate indebtedness and net capital shall be in accordance with 17 CFR 1.17.

/01 Letters of Credit - General Application

Letters of credit deposited with broker-dealers by customers and non-customers to meet margin calls or otherwise shall generally have no value in determining the status of their accounts for purposes of Appendix B. However, where the rules of a commodity exchange specifically permit its members to accept letters of credit from customers as margin on open futures transactions effected on that exchange, such letters of credit shall be recognized to the extent permitted by such exchange subject to the following additional requirements:

- The customer's or non-customer's account must liquidate to an equity.
- Any liquidating deficit on the basis of not allowing any value for the letter of credit must be deducted in computing net capital.
- The letters of credit shall be recognized only to the extent they cover the required margin.

(SEC Staff to NYSE) (No. 80-2, April 1976)

(a) AGGREGATE INDEBTEDNESS

(2) The term “aggregate indebtedness” as defined in paragraph (c)(1) of this section shall exclude with respect to commodity-related transactions:

(i) Indebtedness arising in connection with an advance to a non-proprietary account when such indebtedness is adequately collateralized by spot commodities eligible for delivery on a contract market and when such spot commodities are covered.

(ii) Advances received by the broker or dealer against bills of lading issued in connection with the shipment of commodities sold by the broker or dealer; and

(iii) Equity balances in the accounts of general partners.

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(a) NET CAPITAL

(3) In computing net capital as defined in paragraph (c)(2) of this section, the net worth of a broker or dealer shall be adjusted as follows with respect to commodity-related transactions:

(i) Unrealized Profit or Loss For Certain Commodities Transactions

(A) Unrealized profits shall be added and unrealized losses shall be deducted in the commodities accounts of the broker or dealer, including unrealized profits and losses on fixed price commitments and forward contracts; and

(B) The value attributed to any commodity option which is not traded on a contract market shall be the difference between the option's strike price and the market value for the physical or futures contract which is the subject of the option. In the case of a long call commodity option, if the market value for the physical or futures contract which is the subject of the option is less than the strike price of the option, it shall be given no value. In the case of a long put commodity option, if the market value for the physical commodity or futures contract which is the subject of the option is more than the striking price of the option, it shall be given no value.

(ii) Deduct any unsecured commodity futures or option account containing a ledger balance and open trades, the combination of which liquidates to a deficit or containing a debit ledger balance only: Provided, however, Deficits or debit ledger balances in unsecured customers', non-customers' and proprietary accounts, which are the subject of calls for margin or other required deposits need not be deducted until the close of business on the business day following the date on which such deficit or debit ledger balance originated;

(iii) Deduct all unsecured receivables, advances and loans except for:

(A) Management fees receivable from commodity pools outstanding no longer than thirty (30) days from the date they are due;

(B) Receivables from foreign clearing organizations;

(C) Receivables from registered futures commission merchants or brokers, resulting from cleared swap transactions or, commodity futures or option transactions, except those specifically excluded under paragraph (3)(ii) of this Appendix B. In the case of an introducing broker or an applicant for registration as an introducing broker, include 50 percent of the value of a guarantee or security deposit with a futures commission merchant which carries or intends to carry accounts for the customers of the introducing broker.

(a)(3) NET CAPITAL (continued)

(iv) Deduct all inventories (including work in process, finished goods, raw materials and inventories held for resale) except for readily marketable spot commodities; or spot commodities which adequately collateralize indebtedness under paragraph (c)(7) of 17 CFR 1.17;

/01 Gold and Silver

Gold and silver bullion purchased for a proprietary account must be within the broker or dealer's control in good deliverable form and covered by appropriate insurance or it is subject to 100 percent deduction.

(SEC Letter to Southwestern Municipal Bonds, January 1979)  
(SEC Letter to Irving Lipsiner Associates, Inc., August 20, 1984)

Within The Broker-Dealers Control

The term "within the broker-dealer's control" refers to gold or silver in bullion form, identified by serial number or otherwise, and subject to immediate disposition at the direction of the broker-dealer. Storage arrangements acceptable to insurance carriers are satisfactory provided the coverage complies with the "appropriate insurance" requirement discussed below. Certain custodial requirements must be satisfied whenever gold or silver bullion is stored in outside depositories. The broker-dealer must satisfy itself that the depository will maintain physical possession or control of the bullion stored for its customers free of any lien or claim on such bullion other than that arising out of, and limited to the extent of, any margin transaction or other unpaid for transaction. Records shall be maintained to separately identify customer pledged gold and silver bullion subject to lien from that of customer bullion not pledged and fully paid for. The broker-dealer must include as part of a written agreement with the depository such other protections as may be deemed necessary. Broker-dealers considering the utilization of foreign depositories are cautioned to familiarize themselves with foreign laws on banking and bankruptcy to insure compliance with this paragraph, since these laws may differ significantly from those of the United States.

Appropriate Insurance

The term "appropriate insurance" refers to insurance coverage of all gold or silver under the control of a broker-dealer, whether stored in a depository, in its own custody, in transit, or in any other location within the broker-dealer's control.

(a)(3)(iv) NET CAPITAL (continued)/01 Gold and Silver (continued)Good Deliverable Form

The term “good deliverable form” refers to the condition of all gold bullion purchased, whether delivered to the customer or stored for the customer against written evidence of ownership. The gold must be a minimum 995 parts per 1000 fine and must either have been refined by a refiner or assayed by an assayer recognized as being acceptable to those organized national U.S. commodity exchanges trading in gold or the London Gold Market. All silver bullion purchased, whether delivered to the customer or stored for the customer against written evidence of ownership, must be a minimum 999 parts per 1000 fine silver and shall bear a mark or brand recognized as being acceptable to those organized national U.S. commodity exchanges trading in silver or the London Silver Market or London Metals Exchange.

(Excerpted from NYSE Interpretation Memo No. 76-4, April 30, 1976)

(a)(3) NET CAPITAL (continued)

(v) Guarantee deposits with commodities clearing organizations are not required to be deducted from net worth;

(vi) Stock in commodities clearing organizations to the extent of its margin value is not required to be deducted from net worth;

(vii) Deduct from net worth the amount by which any advances paid by the broker or dealer on cash commodity contracts and used in computing net capital exceeds 95 percent of the market value of the commodities covered by such contracts.

(viii) Do not include equity in the commodity accounts of partners in net worth.

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(a)(3) NET CAPITAL (continued)

(ix) In the case of all inventory, fixed price commitments and forward contracts, except for inventory and forward contracts in the inter-bank market in those foreign currencies which are purchased or sold for further delivery on or subject to the rules of a contract market and covered by an open futures contract for which there will be no charge, deduct the applicable percentage of the net position specified below:

(A) Inventory which is currently registered as deliverable on a contract market and covered by an open futures contract or by a commodity option on a physical. No Charge

(B) Inventory which is covered by an open futures contract or commodity option. 5% of the market value

/01 Removed (No. 97-5, September 1997)

(C) Inventory which is not covered. 20% of the market value

/01 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)

(a)(3)(ix) NET CAPITAL (continued)

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|---|-------------------------|
| (D) Fixed price commitments (open purchases and sales) and forward contracts which are covered by an open futures contract or commodity option.     | 10% of the market value |
| (E) Fixed price commitments (open purchases and sales) and forward contracts which are not covered by an open futures contract or commodity option. | 20% of the market value |

/01 Forward Contracts in Foreign Currency

Forward contracts in any of the five major foreign currencies (Euro, British pound, Swiss franc, Canadian dollar and Japanese yen), which are hedged by options shall be subject to the treatment prescribed in Appendix A.

When the currency risk exposure on forward contracts in all other foreign currencies has not been limited by an offsetting contractual commitment or an actual liability in the same foreign currency, such forward contracts shall be subject to a 20% haircut deduction, the applicable haircut for the underlying currency.

(SEC Letter to Philadelphia Stock Exchange, Inc., February 14, 1986)  
(SEC Staff to NYSE) (No. 90-11, December 1990) (No. 97-5, September 1997)  
(SEC Staff to FINRA) (FINRA Regulatory Notice 13-44)



(a)(3) NET CAPITAL (continued)

(x) Deduct 4% of the market value of commodity options granted (sold) by option customers on or subject to the rules of a contract market.

/01 Short Commodity Options Value Charge

A broker-dealer need not take a deduction to net worth when computing the short commodity options value charge for commodity options granted (sold) by option customers under subparagraph (a)(3)(x) of Appendix B to SEA Rule 15c3-1, provided that the following conditions are met:

1. The customer has aggregate open short commodity option positions with the broker-dealer that are valued in excess of \$25 million;
2. The broker-dealer stress tests each of these customer margin accounts and fully revalues the positions accounting for both movement in the underlying asset and implied volatility;
3. The broker-dealer retains the results of the calculations in condition 2 above; and
4. The broker-dealer establishes and follows written risk management procedures detailing the calculation of required margin, the timing of margin calls, procedures followed when customers fail to meet margin calls, and the evaluation of the stress tests calculations.

(SEC Letter to NYSE and NASDR, February 7, 2006) (No. 06-5, June 2006)

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(a)(3) NET CAPITAL (continued)

(xi) [Reserved]

(xii) Deduct for undermargined customer commodity futures accounts the amount of funds required in each such account to meet maintenance margin requirements of the applicable board of trade or, if there are no such maintenance margin requirements, clearing organization margin requirements applicable to such positions, after application of calls for margin, or other required deposits which are outstanding three business days or less. If there are no such maintenance margin requirements or clearing organization margin requirements on such accounts, then deduct the amount of funds required to provide margin equal to the amount necessary after application of calls for margin, or other required deposits outstanding three days or less to restore original margin when the original margin has been depleted by 50 percent or more. Provided, to the extent a deficit is deducted from net worth in accordance with paragraph (a)(3)(ii) of this Appendix B, such amount shall not also be deducted under this paragraph (a)(3)(xii). In the event that an owner of a customer account has deposited an asset other than cash to margin, guarantee or secure his account, the value attributable to such asset for purposes of this paragraph shall be the lesser of (A) the value attributable to such asset pursuant to the margin rules of the applicable board of trade, or (B) the market value of such asset after application of the percentage deductions specified in paragraph (a)(3)(ix) of this Appendix B or, where appropriate, specified in paragraph (c)(2)(vi) or (c)(2)(vii) of § 240.15c3-1 of this chapter;

/01 Gold and Silver Bullion

Where gold or silver bullion has been deposited to guarantee, margin or secure a customer's account, the gold or silver must be within the broker or dealers control, in good deliverable form and covered by appropriate insurance. For discussion of "within broker or dealer's control", "good deliverable form" and "appropriate insurance". See interpretation 15c3-1b(a)(3)(iv)/01.

(SEC Staff to NYSE) (No. 86-6, March 1986)

(a)(3) NET CAPITAL (continued)

(xiii) Deduct for undermargined non-customer and omnibus commodity futures accounts the amount of funds in each such account to meet maintenance margin requirements of the applicable board of trade or, if there are no such maintenance margin requirements, clearing organization margin requirements applicable to such positions, after application of calls for margin, or other required deposits which are outstanding two business days or less. If there are no such maintenance margin requirements or clearing organization margin requirements, then deduct the amount of funds required to provide margin equal to the amount necessary after application of calls for margin, or other required deposits outstanding two days or less to restore original margin when the original margin has been depleted by 50 percent or more. Provided,

To the extent a deficit is deducted from net worth in accordance with paragraph (a)(3)(ii) of this Appendix B such amount shall not also be deducted under this paragraph (a)(3)(xiii). In the event that an owner of a non-customer or omnibus account has deposited an asset other than cash to margin, guarantee or secure his account, the value attributable to such asset for purposes of this paragraph shall be the lesser of (A) the value attributable to such asset pursuant to the margin rules of the applicable board of trade, or (B) the market value of such asset after application of the percentage deductions specified in paragraph (a)(3)(ix) of this Appendix B or, where appropriate, specified in paragraph (c)(2)(vi) or (c)(2)(vii) of § 240.15c3-1 of this chapter;

/01 Gold and Silver Bullion

Where gold or silver bullion has been deposited to guarantee, margin or secure a non-customer's account, the gold or silver must be within the broker or dealers control, in good deliverable form and covered by appropriate insurance. For discussion of “within broker or dealer’s control”, “good deliverable form” and “appropriate insurance”. See interpretation 15c3-1b(a)(3)(iv)/01.

(SEC Staff to NYSE) (No. 86-6, March 1986)

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(a)(3) NET CAPITAL (continued)

(xiv) In the case of open futures contracts and granted (sold) commodity options held in proprietary accounts carried by the broker or dealer which are not covered by a position held by the broker or dealer or which are not the result of a “changer trade” made in accordance with the rules of a contract market, deduct:

(A) For a broker or dealer which is a clearing member of a contract market for the positions on such contract market cleared by such member, the applicable margin requirement of the applicable clearing organization;

(B) For a broker or dealer which is a member of a self-regulatory organization 150% of the applicable maintenance margin requirement of the applicable board of trade or clearing organization, whichever is greater; or

(C) For all other brokers or dealers, 200% of the applicable maintenance margin requirement of the applicable board of trade or clearing organization, whichever is greater; or

(D) For open contracts or granted (sold) commodity options for which there are no applicable maintenance margin requirements, 200% of the applicable initial margin requirement;

Provided, the equity in any such proprietary account shall reduce the deduction required by this paragraph (a)(3)(xiv) if such equity is not otherwise includable in net capital.

/01 Removed (No. 97-5, September 1997)

/02 Removed (No. 97-5, September 1997)

/03 Removed (No. 97-5, September 1997)

(a)(3) NET CAPITAL (continued)

(xv) In the case of a broker or dealer which is a purchaser of a commodity option which is traded on a contract market the deduction shall be the same safety factor as if the broker or dealer were the grantor of such option in accordance with paragraph (a)(3)(xiv), but in no event shall the safety factor be greater than the market value attributed to such option.

(xvi) In the case of a broker or dealer which is a purchaser of a commodity option not traded on a contract market which has value and such value is used to increase net capital, the deduction is ten percent of the market value of the physical or futures contract which is the subject of such option but in no event more than the value attributed to such option.

(xvii) Deduct 5% of all unsecured receivables includable under paragraph (a)(3)(iii)(C) of this Appendix B used by the broker or dealer in computing “net capital” and which are not receivable from (A) a futures commission merchant registered as such with the Commodity Futures Trading Commission, or (B) a broker or dealer which is registered as such with the Securities and Exchange Commission.

(xviii) A loan or advance or any other form of receivable shall not be considered “secured” for the purposes of paragraph (a)(3) of this Appendix B unless the following conditions exist:

(A) The receivable is secured by readily marketable collateral which is otherwise unencumbered and which can be readily converted into cash: Provided, however, That the receivable will be considered secured only to the extent of the market value of such collateral after application of the percentage deductions specified in paragraph (a)(3)(ix) of this Appendix B; and

(B)(1) The readily marketable collateral is in the possession or control of the broker or dealer; or

(2) The broker or dealer has a legally enforceable, written security agreement, signed by the debtor, and has a perfected security interest in the readily marketable collateral within the meaning of the laws of the State in which the readily marketable collateral is located.

(xix) The term “cover” for purposes of this Appendix B shall mean cover as defined in 17 CFR 1.17(j).

(xx) The term “customer” for purposes of this Appendix B shall mean customer as defined in 17 CFR 1.17(b)(2). The term “non-customer” for purposes of this Appendix B shall mean non-customer as defined in 17 CFR 1.17(b)(4).

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SEA Rule 15c3-1b(a)(3)(xx)

NET CAPITAL (continued)

(b) Every broker or dealer in computing net capital pursuant to § 240.15c3-1 must comply with the following:

(1) *Cleared swaps.* In the case of a cleared swap held in a proprietary account of the broker or dealer, deducting the amount of the applicable margin requirement of the derivatives clearing organization or, if the swap references an equity security index, the broker or dealer may take a deduction using the method specified in § 240.15c3-1a.

(b) NET CAPITAL (continued)(2) *Non-cleared swaps*

(i) *Credit default swaps referencing broad-based security indices.* In the case of a non-cleared credit default swap for which the deductions in § 240.15c3-1e do not apply:

(A) *Short positions (selling protection).* In the case of a non-cleared swap that is a short credit default swap referencing a broad-based security index, deducting the percentage of the notional amount based upon the current basis point spread of the credit default swap and the maturity of the credit default swap in accordance table 1 to § 240.15c3-1a(b)(2)(i)(A):

**Table 1 to § 240.15c3-1a(b)(2)(i)(A)**

<b>Length of Time to Maturity of Credit Default Swap Contract</b>	<b>Basis Point Spread</b>					
	<b>100 or less</b>	<b>101-300</b>	<b>301-400</b>	<b>401-500</b>	<b>501-699</b>	<b>700 or more</b>
Less than 12 months	0.67%	1.33%	3.33%	5.00%	6.67%	10.00%
12 months but less than 24 months	1.00%	2.33%	5.00%	6.67%	8.33%	11.67%
24 months but less than 36 months	1.33%	3.33%	6.67%	8.33%	10.00%	13.33%
36 months but less than 48 months	2.00%	4.00%	8.33%	10.00%	11.67%	15.00%
48 months but less than 60 months	2.67%	4.67%	10.00%	11.67%	13.33%	16.67%
60 months but less than 72 months	3.67%	5.67%	11.67%	13.33%	15.00%	18.33%
72 months but less than 84 months	4.67%	6.67%	13.33%	15.00%	16.67%	20.00%
84 months but less than 120 months	5.67%	10.00%	15.00%	16.67%	18.33%	26.67%
120 months and longer	6.67%	13.33%	16.67%	18.33%	20.00%	33.33%

SEA Rule 15c3-1b(b)(2)(i)(A)



(b)(2)(i) NET CAPITAL (continued)

(B) *Long positions (purchasing protection)*. In the case of a non-cleared swap that is a long credit default swap referencing a broad-based security index, deducting 50 percent of the deduction that would be required by paragraph (b)(2)(i)(A) of this section if the non-cleared swap was a short credit default swap, each such deduction not to exceed the current market value of the long position.

(C) *Long and short credit default swaps*. In the case of non-cleared swaps that are long and short credit default swaps referencing the same broad-based security index, have the same credit events which would trigger payment by the seller of protection, have the same basket of obligations which would determine the amount of payment by the seller of protection upon the occurrence of a credit event, that are in the same or adjacent spread category, and that are in the same or adjacent maturity category and have a maturity date within three months of the other maturity category, deducting the percentage of the notional amount specified in the higher maturity category under paragraph (b)(2)(i)(A) or (B) of this section on the excess of the long or short position.

(D) *Long basket of obligors and long credit default swap*. In the case of a non-cleared swap that is a long credit default swap referencing a broad-based security index and the broker or dealer is long a basket of debt securities comprising all of the components of the security index, deducting 50 percent of the amount specified in § 240.15c3-1(c)(2)(vi) for the component securities, provided the broker or dealer can deliver the component securities to satisfy the obligation of the broker or dealer on the credit default swap.

(E) *Short basket of obligors and short credit default swap*. In the case of a non-cleared swap that is a short credit default swap referencing a broad-based security index and the broker or dealer is short a basket of debt securities comprising all of the components of the security index, deducting the amount specified in § 240.15c3-1(c)(2)(vi) for the component securities.

(b)(2) NET CAPITAL (continued)

(ii) *All other swaps.*

(A) In the case of a non-cleared swap that is not a credit default swap for which the deductions in § 240.15c3-1e do not apply, deducting the amount calculated by multiplying the notional value of the swap by the percentage specified in:

(1) Section 240.15c3-1 applicable to the reference asset if § 240.15c3-1 specifies a percentage deduction for the type of asset;

(2) 17 CFR 1.17 applicable to the reference asset if 17 CFR 1.17 specifies a percentage deduction for the type of asset and § 240.15c3-1 does not specify a percentage deduction for the type of asset; or

(3) In the case of non-cleared interest rate swap, § 240.15c3-1(c)(2)(vi)(A) based on the maturity of the swap, provided that the percentage deduction must be no less than one eighth of 1 percent of the amount of a long position that is netted against a short position in the case of a non-cleared swap with a maturity of three months or more.

(B) A broker or dealer may reduce the deduction under paragraph (b)(2)(ii)(A) by an amount equal to any reduction recognized for a comparable long or short position in the reference asset or interest rate under § 240.15c3-1 or 17 CFR 1.17.

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