QUARTERLY SECURITY COUNTS TO BE MADE BY CERTAIN EXCHANGE MEMBERS, BROKERS AND DEALERS SEA Rule 17a-13

(a) This section shall apply to every member of a national securities exchange who transacts a business in securities directly with or for others than members of a national securities exchange, every broker or dealer (other than a member) who transacts a business in securities through the medium of any member of a national securities exchange, and every broker or dealer registered pursuant to section 15 of the Act; except that a broker or dealer meeting all of the following conditions shall be exempt from the provisions of this section:

(1) His dealer transactions (as principal for his own account) are limited to the purchase, sale, and redemption of redeemable shares of registered investment companies or of interests or participations in an insurance company separate account, whether or not registered as an investment company; except that a broker or dealer transacting business as a sole proprietor may also effect occasional transactions in other securities for his own account with or through another registered broker-dealer;

(2) His transactions as broker (agent) are limited to:

(i) The sale and redemption of redeemable securities of registered investment companies or of interests or participations in an insurance company separate account, whether or not registered as an investment company;

(ii) The solicitation of share accounts for savings and loan associations insured by an instrumentality of the United States; and

(iii) The sale of securities for the account of a customer to obtain funds for immediate reinvestment in redeemable securities of registered investment companies; and

(3) He promptly transmits all funds and delivers all securities received in connection with his activities as a broker or dealer, and does not otherwise hold funds or securities for, or owe money or securities to, customers. Notwithstanding the foregoing, this rule shall not apply to any insurance company which is a registered broker-dealer, and which otherwise meets all of the conditions in paragraphs (a)(1), (2), and (3) of this section, solely by reason of its participation in transactions that are a part of the business of insurance, including the purchasing, selling, or holding of securities for or on behalf of such company's general and separate accounts.

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QUARTERLY SECURITY COUNTS (continued)

(b) Any member, broker, or dealer who is subject to the provisions of this rule shall at least once in each calendar quarter-year:

(1) Physically examine and count all securities held including securities that are the subjects of repurchase or reverse repurchase agreements;

(2) Account for all securities in transfer, in transit, pledged, loaned, borrowed, deposited, failed to receive, failed to deliver, subject to repurchase or reverse repurchase agreements or otherwise subject to his control or direction but not in his physical possession by examination and comparison of the supporting detail records with the appropriate ledger control accounts;

(3) Verify all securities in transfer, in transit, pledge, loaned, borrowed, deposited, failed to receive, failed to deliver, subject to repurchase or reverse repurchase agreements or otherwise subject to his control or direction but not in his physical possession, where such securities have been in said status for longer than thirty days;

/01 Count by Outside Auditors

This rule requires quarterly security counts to be made by most broker-dealers. In a recent 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 promptly to inquire about the results of the count because auditors perform this service for their clients only in satisfaction of the broker-dealer's obligations to comply. The letter went on to state that all unresolved security count differences should be deducted in computing Net Capital and entered in the broker-dealer's books of account and records within seven business days of the date of the security count. 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) (No. 79-9, November 1979)

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(b)(3) QUARTERLY SECURITY COUNTS (continued)

/02 Settlement Date for Foreign Issued and Settled Securities

Broker-dealers may, on the filing of a written notice with its designated examining authority of its intention, and maintenance in its records a schedule of the current settlement cycle of each country in which it trades, for purposes of paragraphs (b)(2) and (b)(3) of SEA Rule 17a-13 treat the settlement date of foreign issued and settled securities as the customary settlement cycle in the particular country. In those instances where the settlement cycle is on a "seller's option basis", the settlement date must be a date no more than thirty (30) days from the trade date.

The SEC will monitor this treatment to assure that the procedures outlined function in a manner consistent with the objectives of SEA Rules 17a-13 and 15c3-3.

(SEC Letter to SIA, August 9, 1990) (No. 90-7, September 1990)

/03 LOANET Confirmations of Securities Borrowed or Loaned

Statements furnished to broker-dealers under the LOANET service will not satisfy the verification requirement for securities borrowed or loaned under subparagraph (b)(3) of SEA Rule 17a-13 unless verified and signed by the counterparty.

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

(4) Compare the results of the count and verification with his records; and

(5) Record on the books and records of the member, broker, or dealer all unresolved differences setting forth the security involved and date of comparison in a security count difference account no later than 7 business days after the date of each required quarterly security examination, count, and verification in accordance with the requirements provided in paragraph (c) of this section. *Provided, however,* that no examination, count, verification, and comparison for the purpose of this section shall be within 2 months of or more than 4 months following a prior examination, count, verification, and comparison made hereunder.

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QUARTERLY SECURITY COUNTS (continued)

(c) The examination, count, verification, and comparison may be made either as of a date certain or on a cyclical basis covering the entire list of securities. In either case the recordation shall be effected within 7 business days subsequent to the examination, count, verification, and comparison of a particular security. In the event that an examination, count, verification, and comparison is made on a cyclical basis, it shall not extend over more than 1 calendar quarter-year, and no security shall be examined, counted, verified, or compared for the purpose of this rule less than 2 months or more than 4 months after a prior examination, count, verification, and comparison.

(d) The examination, count, verification, and comparison shall be made or supervised by persons whose regular duties do not require them to have direct responsibility for the proper care and protection of the securities or the making or preservation of the subject records.

(e) The provisions of this section shall not apply to a broker or dealer registered pursuant to section 15(b)(11)(A) of the Act (15 U.S.C. 78o(b)(11)(A)) that is not a member of either a national securities exchange pursuant to section 6(a) of the Act (15 U.S.C. 78f(a)) or a national securities association registered pursuant to section 15A(a) of the Act (15 U.S.C. 78o-3(a)).

(f) The Commission may, upon written request, exempt from the provisions of this section, either unconditionally or on specified terms and conditions, any member, broker or dealer who satisfies the Commission that is not necessary in the public interest and for the protection of investors to subject the particular member, broker or dealer to certain or all of the provisions of this section, because of the special nature of his business, the safeguards he has established for the protection of customers' funds and securities, or such other reason as the Commission deems appropriate.

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