Proprietary Positions In Debt Instruments Issued By A Parent Or Affiliate Of A Broker/Dealer

The following interpretation was previously published on page 28 of the NASD Guide to Rule Interpretations (May 1996).

Debt instruments issued by a parent or an affiliated entity, will receive no net capital value if they are held by a related broker/dealer for more than two business days. However, the Division of Market Regulation has stated it will not object if a broker/dealer treats proprietary positions held longer than two business days, consisting of certificates of deposit, bankers acceptances, nonconvertible debt securities and similar instruments issued by a parent or affiliated company as allowable assets, under the following conditions.

(a) The parent or an affiliate must finance the entire dollar market value of these positions.

(b) The lender must furnish the broker/dealer with an equity commitment guaranteeing that the lender will forgive its related loans to the broker/dealer by making an equity contribution to the broker/dealer, in an amount equal to the market value of any instruments which are not redeemed when presented for payment.

(c) The debt instruments must be exchangeable in complete satisfaction of the financing, should the lender become insolvent, or alternatively, the financing must provide that the loans will not mature prior to the earlier of either (1) the sale of the instruments by the broker/dealer, or (2) the maturity or early redemption of the instruments.

Letter from SEC Staff of DMR to White & Case, April 14, 1989