

INFORMATIONAL

Reg T And SEC Rule 15c3-3 Reason Codes

NASD Announces Changes To Regulation T And SEC Rule 15c3-3 Extension Request Reason Codes; **Effective Date: February 7, 2000**

SUGGESTED ROUTING

The Suggested Routing function is meant to aid the reader of this document. Each NASD member firm should consider the appropriate distribution in the context of its own organizational structure.

- Legal & Compliance
- Operations
- Senior Management

KEY TOPICS

- Regulation T
- SEC Rule 15c3-3

Executive Summary

The National Association of Securities Dealers, Inc. (NASD[®]) is making several changes to its Extension Request Reason Codes regarding Federal Reserve Board Regulation T and Securities and Exchange Commission (SEC) Rule 15c3-3. The changes include adding codes and aligning some NASD codes with New York Stock Exchange (NYSE) codes; the changes will take effect on February 7, 2000.

The charts in Attachment A outline the reason codes and the changes.

Questions/Further Information

Questions regarding this *Notice to Members* may be directed to Susan DeMando, Regional Compliance Supervisor, Member Regulation, NASD Regulation, Inc. (NASD RegulationSM) at (202) 728-8411.

Background

The Federal Reserve Board's Regulation T and SEC Rule 15c3-3 provide for the possibility of extensions where investors have not promptly met their obligations relative to a securities transaction.

Regulation T pertains to an investor's obligation when a security is purchased. Specifically, an investor is given a maximum of five business days to pay for securities purchased in a cash or margin account. If payment due exceeds \$1,000 and is not received by the end of this time period, the broker/dealer must either liquidate the position or apply for and receive an extension from its designated examining authority.

SEC Rule 15c3-3 pertains to a customer's obligation when securities are sold, other than short

sales. SEC Rule 15c3-3 requires that if a security sold long has not been delivered within 10 business days after the settlement date, the broker/dealer must either buy the customer in or apply for and receive an extension from its designated examining authority.

Clearing firms are reminded of their obligations under the Net Capital Rule relative to Regulation T and outstanding deposits and/or margin as described in SEC Rule 15c3-1 (c)(2)(iv)(B). In addition, should a customer fail to meet his/her responsibilities to deliver a security and that failure results in a clearing firm fail-to-deliver, the Net Capital Rule requires charges under certain conditions. These charges are outlined in SEC Rule 15c3-1 (c)(2)(ix).

Key Features

Following are key features of the current reason codes and some changes:

- Under Regulation T, we are adding reason code 001 ("contacting customer"). This reason code is available one time only for a given trade date and is available for a maximum of seven calendar days. If a customer needs an additional extension related to that trade date, the firm will have to select a new reason code. The reason code can be used starting February 7, 2000.
- Regulation T reason code 021 ("other") may only be assigned by NASD staff. A member firm may not input "other" as a valid reason code. A firm needing a Regulation T extension for reasons other than those provided for in reason codes 001-009, 012, 014, 015¹, 017-020 will need to request and

NASD Notice to Members 99-102

receive NASD approval and input of the code "other". To facilitate such a request, a firm must contact their District Office. *The use of reason code 021 will be allowed only in extreme and unavoidable circumstances.*

- Rule 15c3-3 reason code 050 ("other") may only be assigned by NASD staff. A member firm may not input "other" as a valid reason code. A firm needing a Rule 15c3-3 extension for reasons other than those provided for in reason codes 040-045, 047-049 and 052² will need to request and receive NASD approval and input of the code "other". To facilitate such

a request, a firm must contact their District Office. *The use of reason code 050 will be allowed only in extreme and unavoidable circumstances.*

- For Regulation T extensions, a customer will still be limited to a maximum of five request dates per rolling 12-month period for certain reason codes. For Rule 15c3-3 extensions, a customer will be permitted nine (increased from the current five) request dates per rolling 12-month period.

Endnotes

¹Regulation T reason code 016 ("Acts of God") may also only be used by NASD.

However, it is not a reason code that can be applied on an individual customer basis. Acts of God are limited to regional difficulties like earthquake, flood, etc.; when granted, this reason code applies to affected customers in a geographic area, not to individual customers.

²SEC Rule 15c3-3 reason codes 046 ("Strike or Christmas") and 051 ("Acts of God") are only assigned by NASD and can not be requested on behalf of an individual customer.

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NASD Notice to Members 99-102

Attachment A

Regulation T Extension Request Reason Codes							
Reason Code	Reason Text	Days Permitted	Limit of 5 per Customer	Limit per Reason Code	Final Reason Code	NASD Only	Business Or Calendar Days
001	Contacting Customer	7	Y	1	N	N	C
002	Check Is In The Mail	7	Y	1	Y	N	C
003	Authorization To Transfer Funds	7	Y	1	Y	N	C
004	Awaiting Collateral	7	Y	1	Y	N	C
005	Rcpt Of Sec Sold Offset Purchase	7	Y	1	Y	N	C
006	Legal Documents	7	Y	2	Y	N	C
007	Unacceptable Check	7	Y	1	Y	N	C
008	Foreign Sec. Settle.	7	Y	1	Y	N	B
009	Customer Ill	7	Y	2	Y	N	C
012	COD-DK-Outside U.S.	7	N	1	Y	N	C
014	COD-DK-In U.S.	2	N	1	Y	N	B
015	COD-Fail-35 Days	14	N	2	Y	N	C
016	Acts Of God	14	N	0	N	Y	C
017	Coming From Another Broker	14	N	2	Y	N	C
018	Death In Family	14	Y	1	Y	N	C
019	Awaiting Appt Of Executor	14	Y	2	Y	N	C
020	Transfer cash to another a/c	0	N	1	N	N	C
021	Other	14	N	1	N	Y	C

NASD Notice to Members 99-102

SEC Rule 15c3-3 Extension Request Reason Codes

Reason Code	Reason Text	Days Permitted	Limit of 9 per Customer	Limit per Reason Code	Final Reason Code	NASD Only	Business Or Calendar Days
040	Security In Transit	14	N	2	Y	N	C
041	Death Of Seller	14	Y	2	Y	N	C
042	Can't Buy In, Sec Short Supply	14	N	5	Y	N	C
043	Dividend Sold Before Payable Date	14	Y	2	Y	N	C
044	Still In Foreign Deposit	14	Y	2	Y	N	C
045	Sec Exchange Or Merger	14	Y	2	Y	N	C
046	Strike or Xmas	14	N	0	N	Y	C
047	Coming From Another Broker	14	N	2	Y	N	C
048	Customer Ill Or Hospitalized	14	Y	2	Y	N	C
049	Lost Certificate	30	N	5	N	N	C
050	Other	14	N	0	N	Y	C
051	Acts Of God	14	N	0	N	Y	C
052	Foreign Settlements	10	N	2	Y	N	C

NASD Notice to Members 99-102

**These Regulation T and SEC Rule 15c3-3 reason codes
have been changed.**

NASD Code	<u>Old Description</u> Reg-T Codes	<u>New Description</u> Reg-T Codes
021	Confirm sent to wrong address	Other
	15c3-3 Codes	15c3-3 Codes
050	Lost Certificate: Customer (Combined into 049 Lost Certificate)	Other
052	Other	Foreign Settlements

These Regulation T and SEC Rule 15c3-3 reason codes have been added.

NASD Code	<u>Description</u> Reg-T Codes
008	Foreign Security Settlement
020	Transfer Cash to Another Account
	15c3-3 Codes
046	Strike or Christmas

These Regulation T reason codes have been deleted.

NASD Code	<u>Description</u>
022	Corrected Confirm Requested
023	Duplicate Confirm Requested
024	Cust Out Of Town-No Return Dt
025	Cust Out Of Town-Return Dt
026	Bank In Receivership
027	Cust Away On Business-Ret Dt
028	Confirm Sent To Wrong Address