

Number 07-4
April 10, 2007**PLEASE ROUTE TO FINANCIAL AND OPERATIONS OFFICER/PARTNER
AND COMPLIANCE DEPARTMENT****TO: ALL MEMBER ORGANIZATIONS AND INTERPRETATION
HANDBOOK SUBSCRIBERS****SUBJECT: UPDATE OF INTERPRETATION HANDBOOK – SEA RULES 15c3-1
AND 15c3-3**

The accompanying updated Interpretation Handbook pages are being distributed as replacements for existing pages. The update includes clarification of existing rules, amended interpretations and new interpretations. These interpretations should be carefully reviewed before insertion into the Interpretation Handbook.

**SEA Rule 15c3-1
Page & Reference****Subject**

113, (c)(2)(i)(E)/01	Add-Back to Net Worth of Deferred Tax Liabilities Directly Related to Certain Non-Allowable Assets
139, (c)(2)(iv)(C)/081	Rebates or Interest Receivable From Institutions Pursuant to Securities Borrowed Transactions
224, (c)(2)(vii)/011	Market Blockage – 1% Exemption
225, (c)(2)(vii)/04	Non-Transferable, Restricted or Unregistered Securities as Collateral to a Sole Recourse Fixed Term Loan

SEA Rule 15c3-3**Page & Reference****Subject**

483, (a)(1)/07	Securities Accounts of Government Sponsored Enterprises
542, (e)(1)/011	Time Deposits
604, (Exhibit A - Note E(4))/01	Determination of the Includible Amount of an Affiliated Account's Debit Balance in the Reserve Formula
605, (Exhibit A - Note E(5))/01	Determination of the Includible Amount of a Customer's Concentrated Margin Debit Balance in the Reserve Formula
607, (Exhibit A - Note E(6))/02	Determination of the Includible Amount of a Non-Customer's Debit Balance Portion in a Joint Account with a Customer in the Reserve Formula
696, (PAIB - Note 11)/01	Determination of the Includible Amount of a PAIB's Concentrated Margin Debit Balance in the PAIB Reserve Formula

Interpretation Memo 07-4 Notes:

- Interpretation 15c3-1(c)(2)(i)(E)/01 (Add-Back to Net Worth of Deferred Tax Liabilities Directly Related to Certain Non-Allowable Assets) was amended to include other permissible non-allowable assets pursuant to the SEC No-Action Letter to John Hancock Funds, LLC, dated December 12, 2006, which is attached for reference purposes.
- Interpretation 15c3-1(c)(2)(iv)(C)/081 (Rebates or Interest Receivable From Institutions Pursuant to Securities Borrowed Transactions) was amended to clarify the requirements of condition #2, for purposes of securities borrows transacted pursuant to agency securities lending arrangements. In addition, condition #3 was revised to clarify that the rebates or interest receivable are to be billed promptly and not aged more than thirty (30) calendar days from the billing date, which should be at least monthly.
- Interpretation 15c3-1(c)(2)(vii)/011 (Marketplace Blockage – 1% Exemption) was revised to clarify the computation for determining the exemption from marketplace blockage.
- Interpretation 15c3-1(c)(2)(vii)/04 (Non-Transferable, Restricted or Unregistered Securities as Collateral to a Sole Recourse Fixed Term Loan) was revised to clarify the requirements for a sole recourse fixed term loan that is collateralized by non-

transferable, restricted or unregistered securities. In addition, the interpretation was revised to clarify the net capital treatment on the non-marketable securities pledged as collateral to a sole recourse fixed term loan.

- Interpretation 15c3-3(e)(1)/011 (Time Deposits) was amended to clarify that time deposits issued by a parent or affiliated bank of a broker-dealer are not qualified for deposit into a Reserve Bank Account.
- The other items included in Interpretation Memo 07-4 are new interpretations to SEA Rule 15c3-3 (Exhibit A - Note E(4)), (Exhibit A - Note E(5)), (Exhibit A - Note E(6)) and (PAIB - Note 11).

Questions regarding this Interpretation Memo should be directed to your Finance Coordinator.

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RETAIN ALL INTERPRETATION/INFORMATION MEMOS FOR FUTURE REFERENCE



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

DIVISION OF
MARKET REGULATION

December 12, 2006

Mr. Jeffrey H. Long
Vice President, Controller, and
Assistant Treasurer
John Hancock Funds, LLC
601 Congress Street, 10th Floor
Boston, MA 02210-2805

RE: Request For No-Action Relief Under Rule 15c3-1(c)(2)(i)(C) With Respect To Certain
Deferred Tax Liabilities.

Dear Mr. Long:

This is in response to your letter, dated December 8, 2006 on behalf of John Hancock Funds, LLC, (the "Firm") in which you requested that the Division of Market Regulation of the Securities and Exchange Commission ("Division") provide No Action relief to the Firm pursuant to Securities Exchange Act of 1934 (the "Exchange Act") Rule 15c3-1(c)(2)(i)(C)¹ with respect to certain intangible assets and pre-paid selling commissions that have related deferred tax liabilities.

I. Background

You have represented the following information with respect to your request:

Intangible Assets

In connection with Manulife Financial Corporation's acquisition of the Firm's indirect parent, John Hancock Financial Services, generally accepted accounting principles ("GAAP")² required the Firm to 1) record an intangible asset on its books representing the value ascribed to the Firm's retail distribution network as of the date of the acquisition as required by GAAP when using purchase accounting, 2) recognize a corresponding increase in additional paid-in capital, and 3) recognize a deferred tax liability to account for the income tax consequences associated with the recognition of the "distribution network" asset.

Pre-paid Commissions

The Firm is the distribution agent for several affiliated registered mutual funds. Some of these affiliated funds sell Class B shares, which do not charge the customer an up-front load, but instead charge the customer a contingent deferred sales charge if the customer sells the shares before a certain time period has elapsed. When another broker-dealer sells Class B shares in one of the Firm's affiliated funds, the Firm pays the selling broker-dealer a commission immediately.

¹ 17 C.F.R. § 240.17a-3(a)(17)(i)(B)(1).

² Securities and Exchange Act of 1934 Release No. 18737 (May 13, 1982), 47 FR 23919 (June 2, 1982) specifically requires a broker-dealer to adopt the accrual method of accounting under GAAP for its financial reporting.

Mr. Jeffrey H. Long
John Hancock Funds, LLC
December 8, 2006
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That commission is an expense for tax purposes, but GAAP requires that the Firm defer recognition of the tax benefit because the Firm retains ongoing rights related to the sale of the mutual fund shares. Consequently, the Firm 1) records the amount it pays the selling broker-dealer as an asset (e.g., prepaid commissions), and 2) records a corresponding deferred tax liability on its books.

II. Request for Relief

Rule 15c3-1 provides that a broker-dealer's net capital is net worth (or assets minus liabilities) adjusted for certain items, including a deduction for assets that are not readily convertible into cash. Pursuant to this Rule, the Firm is required to deduct both the deferred tax liability and the related intangible asset and prepaid commission asset when calculating its net capital.

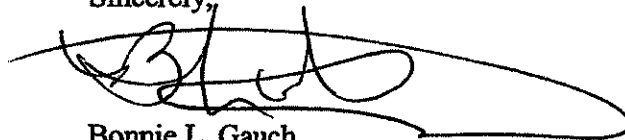
The Firm requests no-action relief from the Staff under Exchange Act Rule 15c3-1(c)(1)(i)(C) if the Firm, when computing net capital on a going-forward basis, adds-back the portion of its deferred tax liabilities that directly relate to the above-described 1) non-allowable, "distribution intangible network" asset, and 2) non-allowable prepaid commission asset.

III. Response

Based on the facts and representations set forth in your letter, as set forth above, the staff of the Division will not recommend enforcement action to the Commission under Exchange Act Rule 15c3-1(c)(1)(i)(C) if the Firm, when computing net capital on a going-forward basis, adds-back the portion of its deferred tax liabilities that directly relate to 1) the non-allowable, "distribution network" intangible asset, and 2) the non-allowable prepaid selling commission asset.

This is a position of the Division's staff concerning enforcement action with regard to Exchange Act Rule 15c3-1(c)(1)(i)(C) only, and does not purport to express any legal conclusions with respect to the applicability of the statutory or regulatory provisions of the federal securities laws. Moreover, this response is based solely upon the facts you have provided and the representations you have made, and any different facts or conditions might require a different response. This position may be withdrawn or modified if the Division determines that such action is necessary in the public interest, for the protection of investors, or otherwise, in furtherance of the purposes of the securities laws.

Sincerely,

A handwritten signature in black ink, appearing to read "Bonnie L. Gauch", written over a horizontal line.

Bonnie L. Gauch
Special Counsel