

Interpretation Memo

Member Firm Regulation

NYSE

New York
Stock Exchange, Inc.

55 Water Street
New York, NY 10041

Number 85-12
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PLEASE ROUTE TO FINANCIAL AND OPERATIONS
OFFICER/PARTNER

TO: MEMBERS, MEMBER ORGANIZATIONS AND INTERPRETATION
HANDBOOK SUBSCRIBERS

Subject: Recording of Collateral to Agreement to Pledge Loans -
SEC Rules 15c3-3 and 17a-3

Agreement to Pledge loans are described as loans extended to broker-dealers as collateral loans without actual or constructive delivery of the collateral to the lending bank. The broker-dealer provides the lending bank with a list of securities which are subject to lien in lieu of the physical delivery of the collateral and the loan is repaid on the following business day.

The SEC in a letter to a member organization dated June 21, 1973 advised "Agreements to Pledge" loans whether customer or firm securities must be allocated on the day of 15c3-3 allocations. No individual stock record entries are required to classify the securities being pledged into a separate bank loan account. Entries must be maintained on a subsidiary ledger and be preserved for a period of not less than six years, the first two years in an easily accessible place.

Effective February 28, 1986 this interpretation will no longer be applicable. All entries for securities movements must be recorded daily on the securities record, bank loan subsidiary ledger and excess deficit listing.

Member Organizations entering into or currently maintaining agreement to pledge loans are cautioned to review the following:

- (1) Procedures for identifying and isolating customer items as defined in the 1934 Act so as to avoid commingling items under the same lien in violation of SEC Rule 8C-1.
- (2) Regulation U limitations on amounts of borrowings permissible on non-customer items.
- (3) Procedures for determining usable securities as collateral under such loan arrangements in conformity with the requirements of SEC Rule 15c3-3.

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Notwithstanding the above such bank loans collateralized by customers securities as permitted under Rule 15c3-3 will continue to be included as credits under Item 2 of the Reserve Formula.

The attached insert pages update the Interpretation Handbook sections or Rules 15c3-3 and 17a-3 for the above. In addition, a previously issued page 1383-8 has been corrected.

Filing Instructions

| <u>Remove</u> | <u>Insert</u> |
|----------------------|-----------------------------------|
| Pages 1065 and 1066 | Pages 1065-1067 |
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| Page 1383-7 - 1383-8 | Corrected Page 1383-7 - 1383-8 |