

Interpretation Memo

Member Firm Regulation

Number 86-9
August 14, 1986

NYSE

New York
Stock Exchange, Inc.

55 Water Street
New York, NY 10041

TO: MEMBERS AND MEMBER ORGANIZATIONS

ATTENTION: CHIEF EXECUTIVE, FINANCIAL AND OPERATIONS
OFFICERS/PARTNERS

SUBJECT: SECURITIES DEPOSITED BY U.S. SUBSIDIARIES WITH
JAPANESE BROKER-DEALER PARENT

In a recent letter to the New York Stock Exchange, Inc., the SEC prescribed nine requirements for allowing a subsidiary of a Japanese broker-dealer to treat its proprietary securities deposited with its foreign parent as assets which need not be deducted from net worth for purposes of Rule 15c3-1.

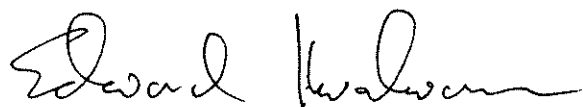
A member organization that is a subsidiary of a Japanese broker-dealer parent should carefully adhere to the provisions detailed in the attached letter.

It should be noted that in addition to the enumerated conditions, the surrounding circumstances must be the same as described in the second paragraph of the letter. These are:

- a) The parent executes securities purchase and sale transactions in Japan upon instructions from the U.S. registered broker-dealer subsidiary;
- b) There are comprehensive protections provided for these securities under Japanese law;
- c) The subsidiary is afforded the same comprehensive protection as is provided for other customers of the parent, and
- d) Under Japanese law the proprietary securities of the subsidiary may not be utilized by the parent in its own business without the consent of the subsidiary.

The prescribed treatment and additional explanatory material will be added to the Interpretation Handbook. In the meantime, questions regarding this treatment may be directed to Martin Hobby, (212) 623-6944 or Maurice Minen, (212) 623-4815, Broker/Dealer Operations and Financial Responsibility Section.

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

DIVISION OF
MARKET REGULATION

July 30, 1986

Mr. Edward Kwalwasser
Senior Vice President
New York Stock Exchange, Inc.
55 Water Street
New York, N.Y. 10004

Dear Mr. Kwalwasser:

We understand that certain of your member firms which are subsidiaries of broker-dealers having their principal places of business in Japan, have deposited fully paid for proprietary securities with their foreign parents. Inquiries have been made whether any proprietary securities which are held by the organization's parent located in Japan are subject to a 100 percent capital charge, under Rule 15c3-1, the Commission's net capital rule, (17 CFR 240.15c3-1).

We understand the facts to be as follows: the parent has the proxy or power of attorney to buy and sell securities for the subsidiary's proprietary account although the subsidiary claims it can do so only on the registered broker-dealer's authority. The firms point out that there are comprehensive protections provided to these securities under Japanese law. The firms state that a subsidiary of a Japanese broker is afforded the same comprehensive protection provided to other customers, and that under Japanese law, the proprietary securities of the subsidiary may not be utilized by the parent in its own business without consent of the subsidiary.

Under the circumstances described above, the Division will raise no question nor recommend any action to the Commission where a broker-dealer subsidiary of a Japanese broker-dealer treats its proprietary securities deposited with its foreign parent as assets which need not be deducted from net worth for purposes of Rule 15c3-1, if:

- 1) the proprietary securities remain registered in the subsidiary's name;
- 2) the proprietary securities are physically segregated in the foreign parent's vault abroad;
- 3) the foreign parent submits a letter to the subsidiary which is provided to the designated examining authority which

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will assure that such proprietary securities will not be subject to any encumbrances or liens by the foreign parent;

4) Each firm will provide a letter to its designated examining authority from the subsidiary's fidelity bond company which verifies that coverage extends to the proprietary securities in the custody of the foreign parent, or the foreign parent's insurance/bonding company submits a letter which provides equivalent coverage;

5) the amount of the subsidiary's proprietary securities in the custody of the foreign parent does not exceed the subsidiary's tentative net capital for more than three (3) consecutive business days;

6) the subsidiary must be treated by the parent the same as any other customer of the foreign parent for such purposes as bankruptcy of the parent under Japanese law;

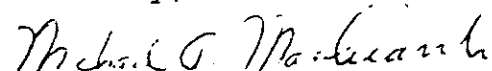
7) in complying with Securities Exchange Act Rule 17a-5, the subsidiary's deposited proprietary securities must be inspected quarterly by parent company employees and the results of those inspections must be reported within 15 days of completion of the inspections to the independent public accountant for the parent for review.

8) the foreign parent remains in compliance with the Japanese net capital provision; and

9) the independent public accountant for the subsidiary considers items 1,2,5 and 7 above, in connection with the supplemental schedule on net capital required by Securities Exchange Act Rule 17a-5(d) (17 CFR 240.17a-5(d)).

If you have any questions, please write or call.

Sincerely,



Michael A. Macchiaroli
Assistant Director