

# Interpretation Memo



New York  
Stock Exchange,  
20 Broad Street  
New York, NY 10

Member Firm Regulation

Number 87-11  
December 17, 1987

Please Route to Chief Financial and Operations  
Officer/Partner and Compliance Departments

TO: Members, Member Organizations and Handbook Subscribers

SUBJECT: Treatment of Large Positions in Securities in  
Proprietary Accounts Under SEC Net Capital Rule

In a recent letter to the New York Stock Exchange Inc. and the National Association of Securities Dealers, Inc., the SEC has further clarified their original position and issued guidelines for determining marketability for a large block of shares of common stock or preferred stock not covered by paragraph (c)(2)(vi)(H) of Rule 15c3-1 (highly rated preferred stock).

The accompanying handbook material pages have been revised to reflect the guidelines expressed in the SEC's letter which is attached. (See page #250 (c)(2)(vii)/02)

Filing Instructions

Rule 15c3-1

Remove Old Pages

250-251

Insert New Pages

250-251



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

DIVISION OF  
MARKET REGULATION

October 5, 1987

Edward Kwalwasser, Esq.  
Senior Vice President  
New York Stock Exchange, Inc.  
20 Broad Street  
New York, New York 10005

Mr. Thomas R. Cassella  
Vice President  
National Association of  
Securities Dealers, Inc.  
1735 K Street, N.W.  
Washington, D.C. 20036

Dear Messrs. Kwalwasser and Cassella:

You have asked for clarification of the so-called blockage test for securities positions for purposes of the net capital rule, Rule 15c3-1 under the Securities Exchange Act of 1934 (17 CFR §240.15c3-1).

Generally, it is the view of the Division that when it can be established that the marketplace can absorb only a limited number of shares of a security for which a ready market seemingly exists, the non-marketable portion of that position is subject to a 100% deduction from net worth in computing net capital.

You believe that broker-dealers need guidelines for determining which portion of a particular position is considered non-marketable when confronted with a marketplace that can absorb only a limited number of shares. Broker-dealers often encounter this problem with securities traded on an exchange or in the over-the-counter market when they have accumulated a large block of a particular security in their trading or other proprietary accounts.

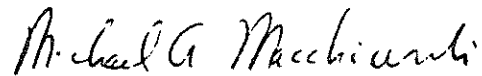
The Division will raise no question nor recommend any action to the Commission if a broker-dealer, when faced with a blockage in securities which are either shares of common stock or preferred stock not covered by paragraph (c)(2)(vi)(H) of Rule 15c3-1 (highly rated preferred stock), treats as readily

Messrs. Kwalwasser and Cassella  
Page Two

marketable securities that portion of the block which equals the aggregate of the most recent four-week, inter-dealer trading volume. \*/ The number of shares exceeding the aggregate of the most recent four-week, inter-dealer trading volume should be considered non-marketable and subject to a 100% deduction unless the broker-dealer demonstrates to the satisfaction of its Designated Examining Authority that a ready market exists for these excess shares.

Should you have any questions please do not hesitate to contact me.

Sincerely,



Michael A. Macchiaroli  
Assistant Director

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\*/ Those securities purchased by the computing broker-dealer during the most recent four-week period shall be excluded from the determination of trading volume.