

Interpretation Memo

Member Firm Regulation

NYSE

New York

Stock Exchange, Inc.

20 Broad Street

New York, NY 10005

Number 87-6

May 28, 1987

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

TO: Members, Member Organizations and Handbook Subscribers

SUBJECT: Update of Interpretation Handbook for SEC Rule 15c3-1

The accompanying handbook material pages are being distributed as replacements for existing pages 101 through 149. Included are several interpretations which have not been previously available.

These new interpretations should be carefully reviewed before filing in the manual.

	<u>SEC Rule 15c3-1</u>	<u>Subject</u>
<u>Page</u>	<u>Interpretation</u>	
101	(a)/01	Net capital requirement increased when certain liabilities are excluded from A.I.
106	(a)(2)(iv)/011	Not more than ten securities transactions in a year qualify as "occasional transactions."
108	(a)(2)(vii)/04	Describes certain procedures that may be adopted by an introducing Bank Affiliated Broker-Dealer (BABD).
109	(a)(2)(vii)/041	The introducing BABD may write checks drawn on an account set up by the clearing broker-dealer.
109	(a)(2)(vii)/042	The introducing BABD may not solicit the receipt of cash or securities and retain the \$5,000 minimum net capital requirement.
116	(a)(6)(ii)/03	A specialist's personal account carried by the same broker-dealer that carries the specialist account is a "non-customer" account.
125	(a)(8)(i)/01	A municipal securities brokers' broker operating under this subparagraph may not switch back to the paragraph (a) method of computing net capital without SEC approval.
125	(a)(8)(ii)/01	Idle cash may be invested in certain prescribed short term securities. Municipal securities are prohibited as SDN collateral.

- 126 (a)(8)(iv)/01 Fail to deliver extensions are prohibited.
- 126 (a)(8)(v)/01 A corporate bond brokers' broker may operate, with certain modifications, under subparagraph (a)(8). (See SEC letter attached.)
- 129 (b)(2)/02 The exemption is available provided an escrow agreement requires the proceeds of a membership sale be held in escrow and be subject to prior claims.
- 134 (c)(1)/11 Under certain conditions accrued liabilities for concessions or commissions payable more than 12 months in the future may be excluded from A.I.
- 137 (c)(1)(iii)/02 Credit balances in the account of an institutional customer (which result from the non-delivery of securities sold) are not to be excluded from A.I. as if it were a "fail to receive." The "fail" concept is to be used for transactions between brokers and dealers.
- 138 (c)(1)(viii)/011 Fixed liabilities secured by automobiles may not be excluded from A.I. as the automobiles are not necessary for the conduct of a brokerage business.
- 139 (c)(1)(viii)/012 The adequacy of collateral to fixed liabilities must be demonstrated to the designated examining authority to exclude the liability from A.I.
- 139 (c)(1)(viii)/013 A partially collateralized fixed liability may be excluded from A.I. to the extent that the portion is adequately collateralized.
- 139 (c)(1)(viii)/02 When certain computer or telephone equipment is subject to a capitalized lease agreement, 50% of the liability may be treated as adequately secured and excluded from A.I. for a period of two years without demonstration of the adequacy of the collateral. (In such cases, 50% of the asset value need not be deducted from net capital.)
- 139 (c)(1)(viii)/021 To be treated as adequately secured for more than 50% of the liability, sole recourse must be to the asset or it must be demonstrated that the asset adequately secures the liability.

Filing Instructions: Remove old pages 101 through 149. Replace new pages 101 through 140.



DIVISION OF
MARKET REGULATION

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

August 19, 1986

Mr. O. Gene Hurst
President
Wolfe & Drizos Corporates, Inc.
7 Dey Street
New York, New York 10007

Dear Mr. Hurst:

This responds to your letter of May 7, 1986 on behalf of Wolfe & Drizos Corporates, Inc. ("Wolfe") regarding the treatment of corporate bonds brokers' broker under Rule 15c3-1 of the Securities Exchange Act of 1934 (17 CFR §240.15c3-1).

I understand the pertinent facts to be as follows: Wolfe, a registered broker-dealer, operates solely as a brokers' broker within the corporate bond community. As such, Wolfe acts exclusively as an undisclosed agent in the purchase and sale of corporate debt securities for other registered broker-dealers. Moreover, Wolfe has no "customers" as defined in Rule 15c3-1 and maintains no trading accounts for proprietary positions. 1/ Lastly, Wolfe will at all times have and maintain net capital of not less than \$150,000. Accordingly, you ask that Wolfe be afforded net capital treatment similar to that afforded the municipal securities brokers' brokers under paragraph (a)(8) of Rule 15c3-1.

Based on the foregoing facts, the Division will raise no question nor recommend any action to the Commission if Wolfe elects to operate according to paragraph (a)(8) of Rule 15c3-1, if (1) Wolfe has and maintains net capital of not less than \$150,000, and (2) Wolfe deducts from net worth one percent of the contract value of each corporate debt securities fail to deliver contract which is outstanding 5 business days or longer.

1/ A brokers' broker operating pursuant to paragraph (a)(8) would by definition be precluded from maintaining any proprietary accounts. However, the staff of the SEC would not object in such brokers were to invest idle cash in government securities falling within paragraph (c)(2)(vi)(A)(1), Category 1 or securities qualifying under (c)(2)(vi)(E)(1).

Mr. O. Gene Hurst
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Such deduction shall be increased by any excess of the contract price of the fail to deliver over the market value of the underlying security. Wolfe may exclude from its aggregate indebtedness computation indebtedness adequately collateralized by corporate debt securities, outstanding for not more than one business day and offset by corporate debt securities fail to deliver of the same issue and quantity. Wolfe need not deduct from net worth the amount by which the market value of securities failed to receive outstanding longer than thirty calendar days exceeds the contract value of those failed to receive, as required by Rule 15c3-1(c)(2)(iv)(E).

You should understand the position expressed herein is a staff position on enforcement only and does not purport to express any legal conclusion on this matter. The Division's position is necessarily confined to the facts as you have represented them; any material change therein may warrant a different result and should be brought to the Division's attention.

If you have further questions, please do not hesitate to contact me.

Sincerely,



Michael T. Dorsey
Staff Attorney

cc: Martin Hobby
NYSE, Inc.