

Interpretation Memo

NYSE

New York
Stock Exchange, Inc.

20 Broad Street
New York, NY 10005

Member Firm Regulation

Number 88-10
June 16, 1988

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 15c3-3

Anticipated Stock Borrowed-Drops That Result in Possession or
Control Deficits

Broker-dealers arranging security borrowings in order to process "today for tomorrow" delivery instructions may unintentionally create a deficit if the securities borrowed are not received as expected (Stock Borrowed Drops). In a letter to the NYSE Sponsored Joint Industry Rule 15c3-3 Committee dated September 8, 1987 (Interpretation Memo No. 87-10, October 6, 1987) the SEC staff advised that no action would be taken in such instance if the broker-dealer made a same day cash deposit under specified conditions. This was subsequently interpreted (Interpretation Memo No. 88-7, May 5, 1988) to allow for next day deposit.

As indicated in Information Memo No. 88-7 and subsequently re-confirmed with the SEC the amount of the required deposit is limited to 130% of the lesser of the deficit created, the value of the drop or the deliveries made on the day of the stock drop. The cash deposit must be made even though subsequent events on the next day would eliminate the deficit.

This interpretation is not available to broker-dealers unless they have filed a letter of intent with DTC signed by a partner or an officer stating they are committed to use the DTC memo segregation system as soon as permitted by DTC and have arranged to make the required deposits with NSCC.

The attached interpretation (b)(2)/032 presents the "no action" position as currently interpreted. It should be noted that the interpretation will only remain in effect until January 31, 1989.

Securities Held in Custody for the Benefit of Customers of Another Broker-Dealer

There is also attached interpretation (d)(1)/07 concerning the holding of securities in a "Special Custody Account for the Exclusive Benefit of Customers" or in a "Special Custody Account for Accommodation Transfer for the Exclusive Benefit of Customers" of another broker-dealer. See Interpretation Memo Number 88-4 dated March 29, 1988.

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