Interpretation
Memo

Member Firm Regulation

NYSE

New York
Stock Exchange, Inc.

20 Broad Street
New York, NY 10005

Number 88-18
October 18, 1988

Please Route to Financial and Operations Officer/Partner

and Compliance and Margin Departments

TO: Members, Member Organizations and Handbook Subscribers

SUBJECT: Rule 15c3-3 Reserve Formula - Alternative Treatment of
           Certain Aged Fails to Deliver vs Fails to Receive

SEC Rule 15c3-3 allows a broker-dealer to exclude both the
debit and credit for fails to deliver which allocate to fails
to receive of the same quantity and issue provided the fail
to deliver contract is not older than 30 calendar days. See
SEC Release No. 34-18737.

In a no-action letter to the NYSE dated August 12, 1988 (see
attached), the SEC staff stated conditions under which certain
fails to deliver aged not older than 120 calendar days could be
included as debit items in the formula (reduced by the
applicable haircut percentage adjusted for mark to market,
computed in accordance with paragraph (c)(2)(ix) of Rule
15c3-1, the net capital rule) when they allocate to fails to
receive of the following securities:

. Municipal securities, or

. Securities issued or guaranteed by the United States or
   any of its agencies or a so-called zero or stripped
   bond relating to one of those securities.

We subsequently asked the SEC staff what effect this no-action
position would have on the following:

Q.   Must the allocable fail to receive continue to be included
     as a credit in the Reserve Formula computation at its
     full value?

Ans. Yes, when the fail to deliver it allocates to is over
     30 calendar days old.

Q.   Are haircut charges applicable to aged fails to deliver
     under SEC Rule 15c3-1(c)(2)(ix) effected?

Ans. No effect. The reduction would still apply.

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

DIVISION OF
MARKET REGULATION

Aug 12, 1988

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

Mr. John E. Pinto, Jr.
Senior Vice President
Compliance
National Association of
  Securities Dealers, Inc.
1735 K Street, Northwest
Washington, DC 20036

Dear Messrs. Kwalwasser and Pinto:

    We have received numerous inquiries concerning aged failed
to deliver contracts which allocate to failed to receive
contracts under Exhibit A, the "Formula for Determination of
Reserve Requirements for Brokers and Dealers" ("Reserve
Formula") of Securities Exchange Act Rule 15c3-3 (17 C.F.R.
§240.15c3-3).

    Rule 15c3-3 allows a broker-dealer to exclude from the
Reserve Formula computation failed to receive contracts which
allocate to failed to deliver contracts only if the failed to
deliver contracts are not older than 30 calendar days. A
broker-dealer electing the alternative method must deduct from
net worth in computing net capital 1% of the contract value of
all failed to deliver contracts or securities borrowed which
were allocated to failed to receive contracts of the same issue
and which were excluded from items 11 or 12 of the Reserve
Formula.

    We have been advised by numerous broker-dealers that fails
to deliver of many securities occur either from inabilities of
broker-dealers to buy-in or borrow failed to receive
securities, because of the thinness of the particular market or
from the need to transfer securities by physical form.   These
circumstances occur typically where the failed to deliver
securities are municipal securities or are securities issued or
guaranteed by the United States or its agencies.

Under the circumstances, the Division will raise no question nor recommend any action to the Commission if broker-dealers include in the Reserve Formula aged failed to deliver contracts which allocate to failed to receive contracts if:

1. The aged failed to deliver security is a municipal security or a security issued or guaranteed by the United States or any of its agencies or is a so-called zero or stripped bond relating to one of those securities;

2. The broker-dealer reduces the aged failed to deliver value for purposes of the Reserve Formula by an amount computed in accordance with paragraph (c)(2)(ix) of the net capital rule (Rule 15c3-1) (the appropriate haircut plus [or minus] the mark-to-market);

3. The failed to deliver is not older than 120 calendar days.

Sincerely,

Michael A. Macchiaroli
Assistant Director