

# Interpretation Memo

**NYSE**

New York  
Stock Exchange, Inc.

Member Firm Regulation

20 Broad Street  
New York, NY 10005

Number 88-4  
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PLEASE ROUTE TO FINANCIAL AND OPERATIONS OFFICER/PARTNER AND  
COMPLIANCE AND MARGIN DEPARTMENTS

TO: MEMBERS, MEMBER ORGANIZATIONS AND HANDBOOK SUBSCRIBERS

SUBJECT: RULE 15c3-3(c) CONTROL OF SECURITIES - HELD IN CUSTODY  
FOR THE BENEFIT OF CUSTOMERS OF ANOTHER BROKER-DEALER

When a broker-dealer is holding securities in a "Special Custody Account for the Exclusive Benefit of Customers" of another broker-dealer, as permitted under the provisions of SEC Rule 15c3-3(c)(4) foreign depository and (c)(7)/02 Accommodation Transfers, the carrying broker-dealer is obligated to hold the securities in physical possession or control free of any charge or lien. Where the carrying broker-dealer is making a market and has sold short, or a long position in a custody account allocates to a short position in another customer's account, non-customer's account or a proprietary position, this requirement for possession or control will not be satisfied by including the market value as a credit in the Rule 15c3-3a formula computation. The broker-dealer carrying the custody account would be in violation of subparagraph (b) of the rule.

Where a broker-dealer confirms a short sale to another broker-dealer, the purchasing broker-dealer cannot designate the selling broker as a control location for the securities purchased unless the selling broker-dealer is committed in a custody agreement to borrow and set aside the securities for the benefit of the purchasing broker-dealer's customers.

In addition to the aforementioned requirements that securities held in a "Special Custody Account for the Exclusive Benefit of Customers of (the Broker-Dealer)" must be held in physical possession or control, as defined in the rule, the following conditions apply to custody accounts:

- The account must be titled "Special Custody Account for the Exclusive Benefit of Customers of (name of broker-dealer)".
- Account must contain only securities of customers of that particular broker-dealer.
- No securities transactions may be effected through the account.

- Custodian must have acknowledged in writing that the securities carried in the account are not subject to any right, charge or security interest, lien or claim of any kind in favor of the custodian or any person claiming through the custodian.
- The particular broker-dealer for whose customers those securities are carried instructs the carrying broker-dealer to maintain physical possession or control of such securities free of any charge, lien, or claim of any kind in favor of the carrying broker-dealer.
- Where securities could be subject to a lien or claim for custody or administration charges, it is the responsibility of the broker-dealer to be certain that the amount of such charges, claims, etc. remain minimal.
- Broker-dealers must individually apply for SEC approval of custodial locations as required under subparagraph (c)((4) and (C)(7) of Rule 15c3-3. This applies even though the custodian broker-dealer may be a U. S. registered broker-dealer.

Any question regarding this matter should be directed to your Senior Finance Coordinator.