

Interpretation Memo



New York
Stock Exchange, Inc.

20 Broad Street
New York, NY 10005

Member Firm Regulation

Number 91-13
September 5, 1991

PLEASE ROUTE TO FINANCIAL AND OPERATIONS/OFFICER/PARTNER
AND COMPLIANCE DEPARTMENT

TO: MEMBERS, MEMBER ORGANIZATIONS AND HANDBOOK SUBSCRIBERS

SUBJECT: CURRENT NET CAPITAL TREATMENT OF CERTAIN "SOFT DOLLAR"
DEFERRED EXPENSES AND ACCRUED LIABILITIES FOR BROKERS
ENGAGING IN TRANSACTIONS WITHIN THE SAFE HARBOR OF
SECTION 28(e) OF THE SECURITIES EXCHANGE ACT OF 1934.

NET CAPITAL TREATMENT AND ACCOUNTING RECORDS

Section 28(e) of the Securities Exchange Act of 1934 provides a safe harbor to investment managers who use the commission dollars of their advised accounts to obtain investment research and brokerage services ("soft dollar" research) by permitting such persons, under certain circumstances, to "pay up" for such services received from broker-dealers.

The Exchange has been requested by the Securities and Exchange Commission (SEC) to remind members and member organizations that deferred expenses resulting from the payment of third party "soft dollar" research expenses for customers prior to receiving compensating commission revenues must be deducted as a non-allowable asset in computing net capital under Rule 15c3-1.

Further, accrued liabilities resulting from the receipt of commissions from customers under "soft dollar" arrangements before third party research is provided is includable in Aggregate Indebtedness and is not considered an add-back to capital for purposes of the net capital computation. Such deferred expenses and accrued liabilities are to be accounted for on a customer-by-customer basis and may not be netted between different customers when computing net capital.

The deferred expenses and accrued liabilities for "soft dollar" research are to be determined in accordance with generally accepted accounting principles including the proper matching of revenues and expenses during each accounting period. Member organizations should be particularly concerned about the possibility of inflated revenues, accelerated expense recognition and the propriety of accruals associated with "soft dollar" arrangements.

A member organization is expected to maintain appropriate accounting records which show the research obligations and expenses for each customer with which it has "soft dollar" arrangements.

GENERAL

This memorandum is not intended as an expression of views in regard to which activities may be considered permissible within Section 28(e) of the Act.

Any member or member organization that has any difficulty in complying with this memorandum should call its finance coordinator immediately.

Attached are new and/or updated handbook pages which are being distributed as replacements for existing pages. The following should be reviewed carefully before insertion into the handbook.

SEA Rule 15c3-1

Page & Reference

Subject

133 (c)(1)/13

Accrued "Soft Dollar" Research Liabilities

179, (c)(2)(iv)(E)/15

Deferred "Soft Dollar" Research Expenses

Remove Pages

Add Pages

131 - 132

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RETAIN ALL INTERPRETATION/INFORMATION MEMOS FOR FUTURE REFERENCE