

# Interpretation Memo

Member Firm Regulation

**NYSE**

New York  
Stock Exchange, Inc.

20 Broad Street  
New York, NY 10005

Number 92-1  
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PLEASE ROUTE TO FINANCIAL AND OPERATIONS OFFICER/PARTNER  
AND COMPLIANCE DEPARTMENTS

TO: MEMBERS, MEMBER ORGANIZATIONS AND HANDBOOK SUBSCRIBERS

SUBJECT: Current Updates to Rules 15c3-1 and 15c3-3

CURRENT INTERPRETATION UPDATES

New and revised interpretations are initially published in an Interpretation Memo such as this one. Periodically these interpretations will be incorporated into the regular handbook pages. Each current update or revision will indicate a page number and section of the handbook into which it will later be integrated. We recommend that appropriate notation be made on the handbook pages for ease in finding the updated interpretations when needed. The interpretations which are attached refer to the following:

1. Treatment of Certain Overdrafts

Regarding the 15c3-3 treatment of overdrafts related to "Seg-Offset" accounts (page 5), the SEC has granted an extension of time, until February 28, 1992, to obtain the appropriate documentation that no cross liens exist against "operating bank accounts" that is required to exclude overdrafts related to "Seg-Offset" accounts or activities from the 15c3-3 Reserve Formula.

2. Rule 15c3-3 and Rule 15c3-1 Treatment of Control or Restricted Stock

In regard to the Reserve Formula treatment of customer debit balances collateralized by securities which can only be sold subject to statutory regulatory or contractual arrangements or other restrictions, the SEC has advised that:

- . Debit balances in customers' accounts collateralized by restricted securities may only be included in the Rule 15c3-3a Reserve Formula Computation to the extent they are secured by securities that can be publicly sold.

The Exchange may require a legal opinion where the value of such securities is a material amount.

As a reminder, under the Net Capital Rule 15c3-1, no value is allowed for securities, in proprietary or other accounts, which cannot be publicly offered or sold because of statutory, regulatory or contractual arrangements or other restrictions (Subparagraph (c)(2)(vii)).

3. Rule 15c3-3 Treatment of HIC Repos With Retail Customers.  
See page 4.

4. Rule 15c3-3 Treatment of Customers Purchasing Commercial Paper Issued by the Broker-Dealer. See page 5.

The accompanying interpretations should be referenced on the pages indicated and retained until replaced by revised pages for insertion into the handbook.

RETAIN ALL INTERPRETATION/INFORMATION MEMOS FOR FUTURE REFERENCE.

Rule 15c3-1

Net Capital Requirements For Brokers or Dealers Securities

New Interpretation - Page 166

(c) (2) (iv) (B)                      Certain Unsecured And Partly Secured  
Receivables

/13 Customers' Debits Secured by Control or Restricted Stock

Only securities which can be publicly sold can be recognized in determining whether a customer's account is partially secured or unsecured. Where the value of publicly saleable securities is not sufficient to fully secure the customer debit, such debit is to be treated as an unsecured debit or partially secured debit, as applicable.

(SEC to NYSE, July 1991) (No. 92-1, January, 1992)

New Interpretation - Page 257

(c) (2) (xii)                      Deductions From Net Worth For Certain  
Undermargined Accounts

/06 Credit Extended To Customers on Control or Restricted Stock

Credit extended to customers on control or restricted stock shall be subject to maintenance margin requirements of NYSE Rule 431(e)(8). Any resulting cash margin deficiencies should be charged pursuant this provision.

(SEC to NYSE, July 1991) (No. 92-1, January, 1992)

Rule 15c3-3

Customer's Protection - Reserves and Custody of Securities

New Interpretation - Page 592

(Exhibit A) (Item 1)      Customer Credit Balances

/12      Retail Customers' Purchasing Reverse Repurchase Agreements

If a broker-dealer enters into a hold in custody (HIC) repurchase agreement with a "retail" customer who had a pre-existing free credit balance with the broker-dealer, the liability of the broker-dealer will ordinarily be considered to be a free credit balance for purposes of Rule 15c3-3. Customers that conduct their business with the broker-dealer on a delivery versus payment basis or customers with transactions that exceed \$1 million contract value would not be considered "retail" customers for purposes of this interpretation. Include as a credit the contract value of hold in custody repurchase agreement(s) with "retail" customers who had pre-existing credit balances of less than \$1 million prior to purchase.

Open repurchase transactions with same customer, may be aggregated in determining the \$1 million limit.

(Info. Memo 87-38, SEC Staff to NYSE)  
(No. 92-1, January, 1992)

(Exh. A) (Item 1)      Customer Credit Balances

/13      Hold-In Custody Reverse Repos Purchased By Customers Lacking Proper Documentation

The original contract value plus any marks to market is to be included in customer credit balances when there is no written agreement between the parties or when a written agreement exists but lacks notice to the customer that the provisions of The Securities Investor Protection Act of 1970 do not protect the counterparty to the repurchase agreement.

(SEC Release 34-24778) (No. 92-1, January, 1992)

New Interpretation - Page 592

(Exh. A) (Item 1)            Customer Credit Balances

/14    Customers Purchasing Commercial Paper

Notes payable to customers in connection with the issuance of the broker-dealer's own commercial paper may be excluded as credits in the reserve formula provided that written disclosure is made in the offering circulars and on the confirmation as to the identity of the issuer and that these transactions are not covered by SIPC.

(SEC Staff to NYSE) (No. 92-1, January, 1992)

New Interpretation - Page 652

(Exh. A) (Item 10)           Customer Debit Balances

/10    Debits in Customers' Accounts Collateralized by Control or Restricted Stock

Debit balances in customers' accounts collateralized by restricted securities may only be included in the Reserve Formula computation to the extent they are secured by securities that can be publicly sold. Accounts that are partly secured are treated under 15c3-3 (Exhibit A) (Item 10)/02. Broker-dealers will bear the burden of proof in demonstrating that the restricted securities can be publicly sold. The Exchange may require a legal opinion where the value of such securities is a material amount.

(SEC Staff to NYSE, July 1991) (No. 92-1, January, 1992)

New Interpretation - Page 675

(Exh. A) (Note A)           Drafts Payable and Overdrafts

/03    The Term "Any Other Accounts" Defined

Where it is required that broker-dealers obtain written assurances from the bank that there are no cross liens to customer-related assets or collateral or any other accounts with the bank, the term "any other accounts" refers to accounts that are used to pay down credits which would

normally be included in the reserve computation, such as customer credits, customer-related fails etc. Under these circumstances "any other accounts" would include operating bank accounts and require appropriate "cross lien" documentation. Accounts used to write checks to customers that reduce customer credits are included in "any other accounts." Firm bank loan collateral at the same bank is not considered a customer-related asset.

(SEC Staff to NYSE, August 1991) (No. 92-1, January, 1992)