

Interpretation Memo

NYSENew York
Stock Exchange, Inc.

Member Firm Regulation

Number 97-5
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New York, NY 10005

**PLEASE ROUTE TO FINANCIAL AND OPERATIONS OFFICER/PARTNER
AND COMPLIANCE DEPARTMENTS**

TO: MEMBERS, MEMBER ORGANIZATIONS AND HANDBOOK SUBSCRIBERS

SUBJECT: UPDATE TO INTERPRETATION HANDBOOK FOR SEA RULE 15c3-1

The Securities and Exchange Commission has approved amendments to SEA Rule 15c3-1 (the "Rule") to allow broker-dealers to employ theoretical option pricing models in determining net capital requirements for listed options and related positions. The amendments are effective September 1, 1997. The rule amendments are intended to simplify the net capital rule's treatment of options for capital purposes and more accurately reflect the risk inherent in broker-dealer options positions.

Accordingly, Appendix A of the Rule on Options Charges has been changed to include Theoretical Pricing Charges and the Alternative Strategy Based Method under 15c3-1a(b) while deductions on unlisted options are in 15c3-1a(c). Further, subparagraph 15c3-1(a)(7) has been eliminated and subparagraph 15c3-1(c)(2)(x) has been modified and all interpretations under this section have been eliminated. In addition, three new interpretations have been added and several interpretations have been deleted or revised throughout the rule.

The following interpretations regarding net capital treatment have been deleted:

<u>Rule Reference</u>	<u>Pages</u>	<u>Title</u>
15c3-1(c)(2)(vi)/11	Page 174 - 176	Haircut Treatment For Baskets of Securities Hedged With Broad Based Index Futures or Index Options
15c3-1(c)(2)(vi)(M)(5)/01	Page 216 - 217	Option Concentration Charges
15c3-1(c)(2)(vi)(M)(5)/021	Page 217	Security Index Options Offset By Futures Contracts and Commodity Options On The Same Broad Based Market Composite Index

15c3-1(c)(2)(vi)(M)(5)/08	Page 219	Basket Securities Hedged by Futures or Options
15c3-1(c)(2)(viii)(C)/05	Page 244	Foreign Currency Forward Commitments
15c3-1a(a)(1)/01	Page 311	Alternative Haircut Treatment for Listed Options
15c3-1a(a)(1)/03	Page 313 - 314	Exchange Listed Index Options
15c3-1a(a)(1)/04	Page 314	Hedged Position-Security Index Option Offset by Futures Contracts
15c3-1a(a)(1)/05	Page 314	Spread Position on Security Index Options Offset by Options on Futures Contracts
15c3-1a(a)(1)/06	Page 315	Concentration Charge on Security Index Options Offset by Futures Contracts
15c3-1a(a)(1)/07	Page 315	Spread Positions on NYSE Double Index, NYSE Composite Index Options and NYSE Composite Index Futures
15c3-1a(a)(1)/08	Page 315 - 316	Options in Foreign Currencies Hedged With Forward Positions
15c3-1a(a)(1)/09	Page 316	Listed Foreign Currency Options Hedged With Futures or Futures Options
15c3-1a(a)(1)/10	Page 316	Haircut Treatment for Baskets of Securities Hedged With Broad-Based Index Futures or Index Options
15c3-1a(a)(1)/11	Page 316 - 319	Risk Based Option Haircuts
15c3-1a(a)(2)/01	Page 321	Unsettled Exercises
15c3-1a(a)(2)/02	Page 321- 327	Definitions and Computation Guide
15c3-1a(a)(2)/021	Page 327	GNMA's - Standbys

15c3-1a(a)(2)/03	Page 327	Odd Lots
15c3-1a(c)(3)/01	Page 333	Warrants/ Short Calls
15c3-1a(c)(3)/02	Page 333	Unsettled Underlying Securities Positions
15c3-1a(c)(3)/03	Page 333	Convertible Bonds/Short Calls
15c3-1a(c)(4)/01	Page 334	Unsettled Underlying Securities Positions
15c3-1a(c)(7)/01	Page 335	Treated as Listed Options
15c3-1a(c)(10)/01	Page 337	Unsettled Underlying Securities Positions
15c3-1a(c)(11)/01	Page 339	Spread Treatments
15c3-1b(a)(3)(ix)/01	Page 349	Haircut Treatment For Baskets of Securities Hedged With Broad-Based Index Futures or Index Options
15c3-1b(a)(3)(xiv)/01	Page 354	Hedged Positions on Futures Contracts Offset by Security Index Options
15c3-1b(a)(3)(xiv)/02	Page 355	Spread Positions on Futures Options Contracts Offset by Security Index Options
15c3-1b(a)(3)(xiv)/03	Page 355	NYSE Composite Index Futures Offset by NYSE Double Index and NYSE Composite Index Options

The following interpretations were added to the net capital rule:

15c3-1(c)(2)(vi)(M)(5)/011	Page 216	Theoretical Options Pricing Models - Concentration Charges
15c3-1a(a)(6)/02	Page 312	Warrants
15c3-1a(b)(2)(iii)(E)(2)/01	Page 330	Spread Treatments

The following interpretations have been changed to include new rule references:

15c3-1(c)(2)(xii)/07	Page 274	Maintenance Requirement for Proprietary Accounts Carried for Joint Back Office Broker-Dealers
15c3-1a(c)(2)/01	Page 335	Short Straddles - Applied to Unlisted Options on Treasuries
15c3-1b(a)(3)(ix)(E)/01	Page 350	Forward Positions in Foreign Currency

The accompanying updated and reformatted handbook pages are being distributed as replacements for existing pages.

	<u>Remove Pages</u>	<u>Add Pages</u>
SEC Rule 15c3-1(a)(7)	79 - 82	79
SEC Rule 15c3-1(a)(8)	83 - 84	83 - 84
SEC Rule 15c3-1	173 - 176	173 - 174
	215 - 220	215 - 219
	243 - 244	243 - 244
	253 - 268	253 - 254
	273 - 274	273 - 274
SEC Rule 15c3-1 Appendix A	311- 340	311 - 337
SEC Rule 15c3-1 Appendix B	349 - 350	349 - 350
	353 - 356	353 - 355

Questions concerning this memo should be directed to your Finance Coordinator.

RETAIN ALL INTERPRETATION/INFORMATION MEMOS FOR FUTURE REFERENCE