

Interpretation Memo

NYSE

New York
Stock Exchange, Inc.

20 Broad Street
New York, NY 10005

Member Firm Regulation

Number 99-6
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**TO: MEMBER, MEMBER ORGANIZATIONS AND HANDBOOK
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**SUBJECT: Reserve Formula Allocation Chart for PAIB (Proprietary Accounts
of Introducing Brokers and Dealers)**

On November 3, 1998, the Division of Market Regulation of the Securities and Exchange Commission ("Commission") had issued a no-action letter concerning the capital treatment of assets in the proprietary accounts of an introducing broker which are held by a clearing broker.

This letter basically stated that any introducing broker may only include PAIB assets as allowable assets in its net capital computation provided that the introducing broker and the clearing broker adhere to the elective procedures regarding the PAIB agreement and its corresponding six interpretations that are set forth in the no-action letter.

Since the publication of the no-action letter in Interpretation Memo #98-10 on December 10, 1998, there have been several additional interpretations and or clarifications concerning the PAIB agreement. They are as follows:

- A proprietary account of a foreign broker/dealer is not included in the PAIB calculation.
- If an introducing firm does not have a proprietary trading account, it still must enter into a PAIB agreement with its clearing firm in order to treat its deposit at the clearing firm as a good asset for capital purposes.
- A U.S. broker/dealer's deposit held by a foreign entity is not affected by the PAIB letter. However, the deposit would be subject to the net capital treatment as is normally accorded to such deposits.

- If a clearing firm will not enter into a PAIB Agreement, the introducing broker would need to take a non-allowable capital charge only on its net equity at the clearing firm.
- The PAIB letter applies to all broker/dealers with cash and /or securities on deposit in a proprietary account at another broker/dealer.

Furthermore, attached is the Proprietary Accounts of Introducing Brokers (“PAIB”) reserve formula allocation chart. This allocation chart shows the relationship between the various allocable items and may be used in conjunction with the interpretations when an allocation is required to determine the debit and credit values includible in the PAIB reserve formula computation.

The following is a listing of interpretations pertaining to PAIB:

SEA Rule 15c3-1

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| 149, (c)(2)(iv)/21 | Clearing Deposits of Introducing Brokers |
| 149, (c)(2)(iv)/22 | Introducing Firms with No Proprietary Trading Accounts |
| 149, (c)(2)(iv)/23 | Introducing Firm’s Net Equity |
| 149, (c)(2)(iv)/24 | Proprietary Accounts of Other Broker/Dealers |
| 149, (c)(2)(iv)/25 | U.S. Broker/Dealer’s Deposit at Foreign Entity |

SEA Rule 15c3-3

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|------------------|--|
| 479, (a)(1)/012 | Proprietary Account of Foreign Broker/Dealer |
| 687, (Exhibit B) | PAIB Allocation Chart |

Remove Pages

148-155
479-480
687-698

Add Pages

148-155
479-480
687-713

Questions regarding this interpretation should be directed to your Finance Coordinator.

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FUTURE REFERENCE