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Raymond J. Hennessy
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NYSE

New York
Stock Exchange, Inc.

Mr. Michael Macchiaroli
Assistant Director
Securities & Exchange Commission
Division of Market Regulation
450 Fifth Street, N.W.
Stop 5-1
Washington, D.C. 20549

Dear Mr. Macchiaroli:

We are confirming our understanding of the following interpretation relative to Seg-Offset activities which was discussed with you at the meeting on June 1, 1989.

Seg-Offset Accounts

Seg-Offset is used by some broker-dealers as a cash management technique to obtain federal funds for a fee which is lower than interest rates, in amounts equivalent to that in their customers' segregated funds accounts with a bank. For example, through this technique, a broker-dealer leaves cash on deposit in a segregated account or Special Reserve Bank Account with a bank that permits the broker-dealer to withdraw federal funds from another account at the bank (the Seg-Offset account) in an amount equal to the segregated account or the Special Reserve Account deposits. Further, the bank has no cross lien against the segregated account or the Special Reserve Account for any overdraft in the Seg-Offset account. The broker-dealer covers the federal funds withdrawal with a clearing house check drawn on a zero-balance account at another bank.

We understand that federal funds paid out of a Seg-Offset account by federal wire need not be included in the reserve formula computation under Rule 15c3-3a as credit items provided:

1. Written assurance has been obtained from the bank, by the broker-dealer, that there are no cross liens to customer loans or collateral including funds in the Special Reserve Accounts as per Rule 15c3-3(f); and

2. The Special Reserve Bank Account must be free of lien and subject to all the requirements of Rule 15c3-3 subparagraphs (e) and (g). No withdrawal entry may appear on the bank statement unless supported by a reserve computation.

We understand that the use of Seg-Offset continues to be permitted even though the federal funds may be used to paydown customer credits, thus reducing 15c3-3 Reserve Formula Credits or may also be used for other security related transactions of a non-proprietary nature.

Overdraft and Zero Balance Checking Accounts

We understand that book overdrafts in zero balance or overdraft checking accounts incurred in connection with Seg-Offset activities need not be included as credit items in the reserve formula computation under Rule 15c3-3a provided that written assurance has been obtained from the bank, by the broker-dealer, that there are no cross liens to customer related collateral or any other accounts with the bank.

However, credit balances must be included in the Reserve Formula if any of the checks or drafts drawn on the accounts could be:

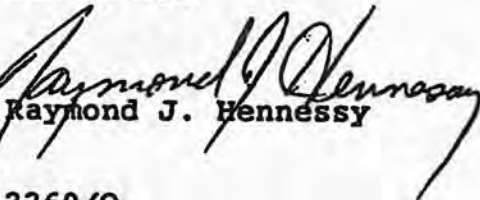
Payable to customers or broker-dealers;

Paid in connection with a securities transaction; or

Deposited in another bank account unless only wired funds are paid out of the receiving account.

With your concurrence the NYSE Interpretation Handbook will be revised to reflect the foregoing.

Sincerely,


Raymond J. Hennessy

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