

MAR 14 1975

Mr. James E. Brucki, Jr.

Vice President

Department of Compliance

Chicago Board Options Exchange, Inc.

LaSalle at Jackson

Chicago, Illinois 60604

This letter to be included with Incoming letter of Oct 9, 1974 and our response dated Feb 11, 1975.

Dear Mr. Brucki:

I am writing with further reference to your letter of October 9, 1974 and our letter to you of (See "Options Clearing Corp." letter Available 2-19-75 under 34 Act, 15(c)(3)) February 11, 1975 respecting the applicability of 17 CFR §240.15c3-3 as it relates to a broker or dealer effecting transactions in options.

We have recently reconsidered the question concerning the extent to which a "qualified letter of credit" may be included as a debit item in the "Formula for Determination of Reserve Requirements for Brokers or Dealers." Based on our review, we believe that the determination (see question 7 on p. 5 of our February 11, 1975 letter) concerning the use of "qualified Letters of Credit" set forth in our letter is broader than is warranted by the provisions of Rule 15c3-3 which is designed to limit the use of customer funds in the operation of the broker's or dealer's business; consequently, we have determined to revise our interpretation accordingly. It would be appreciated if you would communicate our revised interpretation to your membership as soon as possible.

The question posed by you and our revised response follows:

If a clearing member obtains an irrevocable "Letter of Credit" from a bank which may be drawn down by Options Clearing Corporation ("OCC") solely to satisfy obligations of the broker or dealer related to the broker's or dealer's customers' account at OCC, can the amount of the "Letter of Credit" be included as a

debit Item in the Reserve Formula?

Yes. To the extent a broker or dealer has obtained a "qualified" Letter of Credit, as defined herein, secured by qualified securities as defined in subparagraph (a)(6) of 17 CFR §240.15c3-3 which securities are owned by the broker or dealer such "qualified" Letter of Credit may be included as a debit Item in the Reserve Formula to the extent of the daily marking price of all options contracts written in customers' accounts. Unsecured or non-qualified Letters of Credit may not be Included as a debit Item In the Reserve Formula, nor may qualified Letters of Credit secured by customers' margin securities be included as a debit Item In the Reserve Formula. We note that at present the letters of credit approved by the OCC are not "qualified" but OCC has submitted changes to Its rules In this regard pursuant to 17 CFR §240.9b-1 to qualify such letters of credit. Until such time as those amendments are not disapproved by the Commission, Letters of Credit may not be included as a debit item In the Reserve Formula.

As set forth In our earlier letter, the term "qualified Letter of Credit" means: (a) letters of credit Issued by banks or trust companies approved by the OCC for the purpose of meeting the margin requirements of the OCC (1) which shall contain the unqualified commitment of the issuer of the Letter of Credit to pay a specified sum of money to OCC immediately on demand at any time prior to the expiration of the Letter of Credit, (2) shall expire at 2 p.m. Central Time (3 p.m. Eastern Time) on either the March 1 or September 1 immediately following the issuance thereof, and (3) shall be irrevocable except on the issuer's written notice to OCC of its intent to do so given not less than two full business days prior to the date fixed for such revocation. In addition, to the foregoing, Letters of Credit described in (a) above, when used as margin at OCC for the customers' account of a broker or dealer maintained with OCC, will not be deemed a qualified Letter of Credit unless OCC undertakes that it will at no time apply such letters of credit to satisfy other obligations of the broker or dealer to OCC until all claims in the customers' account are first satisfied.

If you have any further questions, please contact us.

Sincerely,

Nelson S. Kibler

Assistant Director

Broker-Dealer Financial Responsibility

and Securities Transactions

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