MARKET REGULATION

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February 28, 1986

Frances A. Giardina
Vice President of Operations
Emanuel & Company
110 Wall Street
New York, N.Y. 10005

Dear Ms. Giardina:

This is in response to your letter dated October 31, 1985 on behalf of Emanuel & Company in which you request an interpretation of Rule 15c3-3 (17 CFR 240.15c3-3), the Customer Protection Rule.

Specifically, you inquire about the correct allocation of a customer short versus an inventory long under Exhibit A - Formula for Determination of Reserve Requirements of Broker-Dealers of the Customer Protection Rule ("the Formula"), when the registered bonds are delivered by settlement day in a non-negotiable form.

I understand the pertinent facts to be as follows: A client sold registered bonds to a broker-dealer, acting as principal and buying for his own proprietary account. The registered bonds were delivered by the client to the broker-dealer by settlement day in a non-negotiable form. The broker-dealer placed the non-negotiable certificates in a segregated account while it waited to receive a bond power. You inquire about the correct allocation under the reserve formula computation prescribed by Rule 15c3-3 for the registered bonds in question.

The Division will recommend no action to the Commission if a broker-dealer does not include the customer's credit balance allocating to the firm inventory in Item #1 of the Formula until the earlier of 30 calendar days after the settlement day of the transaction in question or the time the bond power is received by the broker-dealer for the registered bonds in question.

I hope this is responsive to your inquiry. Please contact us if we can be of further assistance.

Sincerely,

Antonio J. Santos
Staff Attorney

cc: Thomas Cassella, NASD

Emanuel and Company
110 Wall Street, New York, NY 10005, (212) 344-0590, Telex: 649027

October 31, 1985

Securities Exchange Commission
450 Fifth Avenue
Northwest Washington, D.C. 20549
Attn: Rule Making Board

To Whom it may concern:

Kindly give a ruling on rule 15C3-3 in regard to a customer short versus an inventory position, as applies to the following situation:

A client sells a registered item and delivers it to a dealer in non-nogotiable form, by settlement date. The certificate, pending a bond power, is placed in a segregated and not a loan account. The firm picked up the customers credit in item #1, as a result of the short position. However, the firm also allocated the debit to item #1 as a customer short vs inventory position. Since the item was non-negotiable, it was treated as a fail to receive from the customer, even though the bonds were in segregation.

Was this allocation acceptable based on the above information? We feel that the item should not be treated as a receive inot a loan account, since we did not have borrowing power on the certificate. We await your opinion.

Sincerely,

Frances A. Giardina
Vice President of Operations

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