

DIVISION OF MARKET REGULATION

Ms. Carol J. Haertel

Financial Officer

Marcotte Hume ' Associates, Incorporated

512 Nicollet Mall

Minneapolis, MN 55402

Dear Ms. Haertel:

This is in response to your letter of January 25, 1988 regarding the definition of "qualified securities" under paragraph (a)(6) of Securities Exchange Act Rule 15c3-3 (17 C.F.R. 240.15c3-3(a)(6)).

Under Rule 15c3-3, the broker-dealer must periodically deposit in a Special Reserve Account for the Exclusive Benefit of Customers ("Reserve Bank Account") cash and/or qualified securities in amounts determined in accordance with the Rule 15c3-3a Formula for Determination of Reserve Requirements for Brokers and Dealers ("Reserve Formula"). Paragraph (a)(6) of the Rule defines a qualified security to mean a security "... issued by the United States or a security in respect of which the principal or interest are guaranteed by the United States." You ask whether collateralized mortgage obligations ("CMOs") are qualified securities under paragraph (a)(6) •

- The CMOs to which you refer in your letter are secured by mortgage-backed securities that are backed by the full faith and credit of the United States government ("GNMAs"). While GNMAs themselves are qualified securities, CMOs are separate securities neither issued nor guaranteed by the United States such, the CMOs you describe are not qualified securities under Rule 15c3-3(a)(6).

If you have any further questions, please feel free to call.

Sincerely,

Michael A. Macchiaroli

Assistant Director

Mareotte Hume & Associates incorporated

January 25, 1988

Securities and Exchange Commission

ATTN: Surveillance Dept.

450-5th Street N. W.

Washington, D.C 20549

Gentlemen:

This is to confirm our telegram to you on January 22, 1988 pertaining to the technical violation of 15c3-3 regarding unqualified securities in the Reserve Account.

Attached is an information memo from the New York Stock Exchange dated October 28, 1983 given to us by the NASD in their last 1987 audit of our firm. Marcotte Hume, in turn, supplied this memo to Norwest Bank Minneapolis, our agent, who does repo's in our Special Reserve Account.

This NYSE information memo lists qualified investments under Rule 15c3-3. However, the on-site examiner's interpretation of the securities Marcotte Hume & Associates used -in its Reserve Account, although listed as qualified, is in question and therefore creating a technical violation.

Government National Mortgage Obligations and Collateralized Mortgage Obligations by their very nature are pools.

We would like to suggest to the commission, to clearly designate which U.S. Government backed mortgages are eligible for repo's, if GNMA pools, backed by U.S. government mortgages are ineligible.

We also are requesting a "No Action" regarding our telegram sent to you on 1/22/88 based on repo' s on . U.S backed qualified securities, based on a memo put out by the New York Stock Exchange.

Very truly yours,

Carol J. Haertel

Financial Officer

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