

MIDWEST STOCK EXCHANGE, INCORPORATED

120 South La Salle Street

Chicago, Illinois 60603

TELEPHONE(312) 368-2222

April 05, 1977

Mr. Nelson Kibler

Securities and Exchange Commission

500 North Capitol Street, N. W.

Washington, D. C. 20549

RE: Interpretations of 15c3-1 and 15c3-3

Dear Mr. Kibler:

Recently, the following interpretations were received by telephone from Mr. Bob Smith of your office, and the Exchange would appreciate an official confirmation of its understanding of them.

1. The market value of fully-paid securities borrowed from the personal (non-capital) securities account of a general partner of the computing firm, for which no equivalent money or value was paid or credited, for the purpose of delivery against and inventory short sale is excludable from aggregate indebtedness and is excludable from the credit side of the Reserve Formula.
2. The market value of designated margin securities borrowed from the margin account of a customer of the computing firm, for which no equivalent money or value is paid or credited, for the purpose of delivery against an inventory short sale is excludable from aggregate indebtedness and is includable from the credit side of the Reserve Formula.

Sincerely,

John H. Graham

Senior Examiner

Department of Member Firms

MIDWEST STOCK EXCHANGE, INCORPORATED

120 South La Salle Street

Chicago, Illinois 60603

TELEPHONE(312) 368-2222

April 06, 1977

Mr. Nelson S. Kibler

Assistant Director

Division of Market Regulation

Securities and Exchange Commission

Washington, D. C. 20549

Re: Interpretations of Rule 15c3-1

Dear Mr. Kibler:

Recently our staff received the following interpretations by telephone from Mr. Bob Smith and would appreciate a written confirmation of them:

1. Other than the requirements of subparagraph (c)(5) (temporary subordinations) Appendix D of Rule 15c3-1 does not impose a maximum length of time during which a Secured Demand Note or Cash subordinated Loan Agreement may operate;
2. The length of time a concentrated proprietary position may exist without the imposition of the additional capital penalties pursuant to subparagraph (c)(2)(vi)(M) of Rule 15c3-1 is measured by the number of consecutive business days that the position continues to exceed the financial parameters of the Rule. Note: does this interpretation supersede that published by the NASO dated 12/31/57? (See attached).

Sincerely

John H. Graham

Senior Examiner

Department of Member Firms

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST

WASHINGTON, D.C. 20006

PLEASE DIRECT THIS NOTICE TO ALL

FINANCIAL AND OPERATIONAL OFFICERS AND PARTNERS

TO: All NASD Members

RE: Uniform Net Capital Rule Interpretations

In Securities Exchange Act Release No. 11497, dated June 26, 1975, the Securities and Exchange Commission announced the adoption of amendments to Rule 15c3-1 (the "Uniform net capital rule") under the Securities Exchange Act of 1934. The rule became effective September 1, 1975, subject to the transitional provisions of paragraph (g) which delayed the effective date of certain provisions of the rule until January 1, 1976.

Since the publication of the amended rule, numerous questions have been asked and requests for clarification sought by both members and other interested parties. Although many of these items were thoroughly discussed by Association representative during the course of the NASD sponsored net capital seminars recently held across the country, they were not discussed at all locations. Also, questions occasionally arose at these seminars for which answers were not available at the time. Following further study and after discussions with the staff of the SEC, many of these questions have now been answered.

The purpose of this notice is to provide members with an up-to-date compilation of the major interpretations concerning the new uniform net capital rule. Such interpretations are presented below in a question and answer format. For reference purposes, the subparagraph of the rule under discussion appears below each numbered question.

Question 1: From what date is a new member considered to have commenced doing a business? a ready market has been established, are subject to the haircuts set forth in subparagraph (c)(2)(vi)(J). This interpretation will continue to be effective through December 31, 1976, in order to allow time for the issuers of these securities to obtain a second \$\$\$ from a nationally recognized statistical rating service.

Question 27: (c)(2)(vi)(M) Are redeemable shares of registered investment companies exempt from the undue concentration provisions?

Answer: It is expected that subparagraph (c)(2)(vi)(M) will be amended shortly to exclude shares of registered investment companies from the undue concentration haircut

requirements. Pending such an amendment redeemable shares of registered investment companies are subject to an undue concentration haircut.

Question 28: (c)(2)(vi)(M) Does a specified security have to exceed 10 percent of a broker-dealer's net capital before application of haircuts on a continuous basis for 11 consecutive business days before the undue concentration haircut to be applied?

Answer: No. The rule requires that if a position more than eleven business days old and on that date (or thereafter) its market value is in excess of the 10 percent test, the excess portion thereof is given a penalty haircut.

Question 29: (c)(2)(vi)(M) Under the undue concentration haircut provisions, are proprietary positions of the same issue and same maturity with different coupon rates treated separately?

Answer: Securities of the same issue and maturity having different coupon rates are treated as separate portions for the purpose of determining the undue concentration haircut.

Question 30: (c)(2)(vi)(M) To what amount is an undue concentration haircut applied in the case of an inventory position of 600 shares of stock with a market value of \$90,000, for example, when the net capital of the broker-dealer with the position is \$120,000 before the application of the haircuts as set forth in subparagraph (c)(2)(vi) or Appendix A? Is it:

(1) \$78,000-the excess of the market value of the position (\$90,000) over 10 percent of net capital before the application of haircuts (\$12,000); or

(2) \$80,000 -the excess of the market value of the position (\$90,000) over the \$10,000 minimum exclusion amount or

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Chicago, Illinois 60603

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April 07, 1977

Mr. Nelson Kibler

Securities and Exchange Commission

500 North Capitol Street, N. W.

Washington, D.C. 20549

RE: Interpretation of Rule 15c3-1

Dear Mr. Kibler:

Recently our staff received the following interpretation by telephone from Mr. Bob Smith of your office and the Exchange would appreciate an official confirmation of it:

The balance in the "Special Account" required by Rule 15c3-3(k)(2)(A) may not serve to reduce aggregate indebtedness in a computation pursuant to Rule 15c3-1.

Very truly yours,

John H. Graham

Senior Examiner

Department of Member Firms

June 2, 1977

Mr. John H. Graham

Senior Examiner

Department of Member Firms

Midwest Stock Exchange, Inc.

120 South LaSalle Street

Chicago, Illinois 60603

Dear Mr. Graham:

This is in response to your letters of April 5, April 6, and April 7, 1977 on behalf of the Midwest Stock Exchange, Inc. regarding the application of Rule 15c3-1 (17 CFR 240.15c3-1) and Rule 15c3-3 (17 CFR 240.15c3-3) under the Securities Exchange Act of 1934 (the "Act").

In the above-noted letters you raise the following questions:

1. May the balance in the "Special Account," required by Rule 15c3-3(k)(2)(i) serve to reduce aggregate indebtedness in a computation pursuant to Rule 15c3-1;

2. Is the market value of fully-paid securities borrowed from the personal (non-capital) securities account of a general partner of the computing firm, for which no equivalent money or value was paid or credited, for the purpose of delivery against an inventory short sale, excludable from aggregate indebtedness and excludable from the credit side of the Reserve Formula;
3. Is the market value of designated margin securities borrowed from the margin account of a customer of the computing firm, for which no equivalent money or value is paid or credited, for the purpose of delivery against an inventory short sale excludable from aggregate indebtedness and includable in the credit side of the Reserve Formula;
4. Other than the requirements of subparagraph (c)(5) (temporary subordinations), does Appendix D of Rule 15c3-1 impose a maximum length of time during which a Secured Demand Note or Cash Subordinated Loan Agreement may operate; and
5. Is the length of time a concentrated proprietary position may exist, without the imposition of the additional capital penalties pursuant to subparagraph (c)(2)(vi)(M) of Rule 15c3-1, measured by the number of consecutive business days that the position continues to exceed the financial parameters of the Rule?

With regard to your first question, Rule 15c3-1 does not exclude from aggregate indebtedness ("A1") amounts payable to the extent funds are on deposit in a "Special Account" required by Rule 15c3-3(k)(2)(i).

In response to questions number two and three, amounts representing customer's margin securities or officer's or partner's fully-paid non-capital securities that are not required to be in possession or control under the Rule and which are utilized by a broker-dealer to deliver against a proprietary short sale are not included in A1 or the credit side of the Reserve Formula. It should be noted, however, that in the calculation of the Reserve Formula the firm short would allocate to a customer long requiring an entry to the credit side of the Reserve Formula equal to the value of the proprietary position.

In response to item number four, Appendix D to Rule 15c3-1 does not impose a maximum time period during which a conforming secured demand note or subordinated loan may be entered into other than temporary subordinations pursuant to subparagraph (c)(5) of Appendix D.

Finally, with regard to your last question, it is the Division's view that the undue concentration charge required by subparagraph (c)(2)(vi)(M) of Rule 15c3-1 is applied to a proprietary position which has been in position for more than eleven consecutive business days at any time its market value exceeds 10 percent of net capital prior to the deductions required by subparagraph (c)(2)(vi) or appendix A of Rule 15c3-1.

Sincerely,

Robert L. Smith

Securities Operations Specialist

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