

Mr. Lawrence J. Sconzo, jr.

Moore & Schley, Cameron & Co.

Two Broadway

New York, New York, 10004

Dear Mr Sconzo:

This is in response to your letter of August 21, 1979 on behalf of Moore & Schley, Cameron & Co ("MSC") wherein you request our interpretation of the net capital treatment of certain transactions.

I understand the pertinent facts to be as follows: MSC "the parent" formed a non-guaranteed, wholly-owned subsidiary, Moore & Schley Municipals, Inc., " the sub." The sub was to clear its business on a fully disclosed basis through the parent. In order to do this, the initial capitalization of the sub took the form of a free credit balances on the books of the parent. This free credit balance was to be used to purchase securities to be carried in the name of the sub. You ask whether this free credit balance may be considered an allowable asset for net capital purposes.

It is the opinion of the Division that a free credit balance on deposit with the parent is not an allowable asset for the computation of the sub's net capital, although securities purchased for the sub which are clearly carried on the books and records of the parent in the sub's name may be considered an allowable asset of the sub. You point out in your letter, however, that this creates a difficult situation for the sub, when the sub transfers money to the parent for purposes of purchasing securities and when the parent sells securities on behalf of the sub. While the money is on deposits with the parent pending purchases of securities or when securities are sold and monies are on deposit with the parent allowable asset for net capital purposes.

The Division, under the circumstances, will raise no question and recommend no action to the Commission if MSC computes the net capital of the sub in accordance with the following principles: If the sub transfers funds to the parent for bona fide securities purchases, then the sub may consider the credit balance on deposit with the parent as an allowable asset for no more than one

business day pending the clearance of securities transactions (provided the securities are clearly maintained in the name of the sub). Similarly, when securities held in the name of the sub are sold, the funds received are an allowable asset for one business day pending transfer of the funds to the sub or to a bank account in the name of the sub over which account the parent has no direct control. The transaction just be bona fide securities transactions on behalf of the sub, examinable to the satisfaction of the firm's designed examining authority.

Very truly yours,

Gregory M. Smith

Attorney Advisor

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