UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

DIVISION OF
MARKET REGULATION

November 26, 1990

Mr. Salvatore Pallante
Senior Vice President
New York Stock Exchange, Inc.
20 Broad Street
New York, New York 10005

Mr. Thomas Cassella
Vice President
National Association of Securities Dealers, Inc.
1735 K Street, N.W.
Washington, D.C. 20006

Dear Messrs. Pallante and Cassella:

We have received several questions concerning the deductions applicable to variable interest rate long-term corporate put bonds under Securities Exchange Act Rule 15c3-1 (17 C.F.R. §240.15c3-1).

It has come to our attention that registered broker-dealers have been structuring long-term corporate bonds with a non-severable demand feature entitling the holder to put the bonds to the issuer at 100 percent of the bond's principal amount plus accrued interest at certain designated times. The bonds are supported by an irrevocable letter of credit, standby bond purchase agreement or other liquidity facility ("Credit Facility") provided by a credit-worthy institution and covering the payment of principal, interest and any premium on any bonds tendered to an issuer under the put feature. The indenture specifies the times at which holders of the bonds may put the bonds back to the issuer (the "Put Date"). The broker-dealer however, does not endorse, guarantee or assume any obligation under the put, other than that as remarketing agent described below.

Interest on the bonds accrues on a variable or flexible rate basis. As such, the rate of interest is reset, depending on the terms of the indenture, on a periodic basis. The bonds generally trade at par. The bonds are rated by at least two of the nationally recognized statistical rating organizations.

Generally, the registered broker-dealer acts as a remarketing agent and agrees to attempt to sell any bonds that have been put back to the issuer. During the period of time the broker-dealer remarkets the bonds, it may hold the bonds that have been tendered in inventory, and therefore would take a percentage deduction from the principal amount thereof in computing net capital pursuant to paragraph (c)(2)(vi) of Rule 15c3-1. Generally, broker-dealers have been deducting the percentages set forth in paragraph (c)(2)(vi)(F) of the net capital rule, with the maturity for the purposes of that section being the time to maturity of the bond.

Broker-dealers have asserted that these charges materially misstate the risks and volatilities of these bonds. Based on the circumstances described above, with respect to variable interest rate corporate debt securities with a non-severable periodic demand feature that: (i) are supported by a Credit Facility provided by a credit-worthy institution that covers the payment of principal, interest and premium on any bonds tendered to the issuer under the put; (ii) trade generally at par; (iii) are rated in one of the four highest rating categories by at least two of the nationally recognized statistical rating organizations; (iv) have a Put Date no greater than six months from the previous Put Date; and (v) otherwise meet the criteria set forth in paragraph (c)(2)(vi)(F), the Division of Market Regulation will recommend no-action to the Securities and Exchange Commission if registered broker-dealers take a two percent deduction from the aggregate principal amount of bonds in their proprietary accounts.

Sincerely,

Michael A. Macchiaroli

Michael A. Macchiaroli
Assistant Director