



DIVISION OF  
MARKET REGULATION

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

April 24, 1987

Mr. Raymond J. Hennessey  
Vice-President  
New York Stock Exchange  
55 Water Street  
23rd Floor  
New York, New York 10004

Dear Mr. Hennessey:

You have asked us whether the filing of an amended Form X-17A-5 which incorporates the accounting adjustments recommended by the firm's independent auditor for the firm exempts the firm from the "reconciliation" requirement of Rule 17a-5(d)(4) under the Securities Exchange Act of 1934. 1/

Essentially, the Rule requires each broker-dealer to submit a reconciliation which identifies and explains "material differences" between its computation of net capital under Rule 15c3-1 and reserve requirements under Rule 15c3-3 in the firm's "most recent" Part II FOCUS Report filed and the net capital and reserve requirement computations included in its annual audited report. To avoid differences in the two reports, some broker-dealers have filed subsequent amendments to the Form X-17A-5 routinely filed at the end of the year (normally within 17 business days following the close of the year), incorporating into those filings, adjustments recommended by their independent auditors. Because of the amendments to the previous FOCUS Report, each firm claims there are no differences between the audited report and the firm's "most recent" X-17A-5 filing and typically, no reconciliation is filed.

---

1/ Rule 17a-5(d)(4) provides that "A reconciliation, including appropriate explanations, of the Computation of Net Capital under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3 in the audit report with the broker's or dealer's corresponding unaudited most recent Part II or Part II A filing shall be filed with said report when material differences exist. If no material differences exist, a statement so indicating shall be filed." (emphasis added)

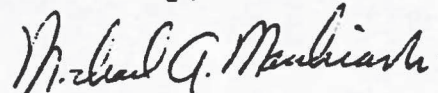
Mr. Raymond J. Hennessey  
Page Two

This interpretation frustrates the purposes of the Rule. The term "most recent" does not contemplate subsequent amendments to a firm's year-end X-17A-5 filing. Rather, the Rule was designed to highlight and provide explanations for material audit adjustments to the firm's year-end net capital and reserve requirement computations which were filed in the time periods contemplated by Rule 17a-5. The Rule thus requires that, in spite of the amendment, the audited version of the firm's year-end X-17A-5 contain a reconciliation and explanation of material differences, if any, as compared to the original filing due seventeen days after the end of the year.

As an alternative, the Division will not recommend action to the Commission if the broker-dealer submits an amended Form X-17A-5 that contains the reconciliation and explanation of material differences contemplated by Rule 17a-5(d)(4) between the amended filing and the Form X-17A-5 Report previously filed as required. If the reconciliation is contained in the amendment, it should include, at a minimum, the original and amended amounts, and an explanation of material differences between the two. The subsequently audited report would then include a reconciliation and explanation of material differences that exist between the amended X-17A-5 and the audited amounts and also a statement as to whether any material differences are shown in the amendment.

If no material differences exist between the audited report and the most recent filing exist, a statement to that effect is required. In the case of an amended FOCUS filing, the reference to the unaudited FOCUS filing should state the date of the amended filing (e.g. - There were no material differences between the above computation and the Company's corresponding unaudited amended Part II filing of February 13, 1987).

Sincerely,



Michael A. Macchiaroli  
Assistant Director