



DIVISION OF
MARKET REGULATION

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

January 28, 1986

Mr. Edward A. Kwalwasser
Senior Vice President
New York Stock Exchange, Inc.
55 Water Street
New York, NY 10004

Dear Mr. Kwalwasser:

Broker-dealers have asked that registered investment companies which issue uncertificated mutual fund shares which are carried by a broker-dealer for customer accounts be designated as control locations for the possession or control requirements of Securities Exchange Act Rule 15c3-3(b).

Rule 15c3-3(b) requires that a broker-dealer shall promptly obtain and shall thereafter maintain physical possession or control of all fully-paid and excess margin securities carried by a broker-dealer for the account of customers including securities issued by mutual funds. Under the prevalent practice of mutual funds' issuing uncertificated shares a broker-dealer could not have physical possession or control of fund shares.

A number of broker-dealers have applied for the designation of various mutual funds as adequate control locations pursuant to Rule 15c3-3(c)(7). The Division has decided not to approve each application on a case by case basis; rather, the Division will raise no question nor recommend any enforcement action where broker-dealers treat investment companies as control locations for purposes of Rule 15c3-3 where the broker-dealer has no certificate reflecting ownership of fund shares under the following guidelines:

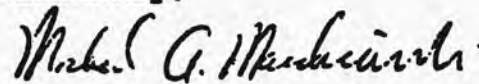
- 1) the fund must be currently registered with the Commission pursuant to the Investment Company Act of 1940;
- 2) the broker-dealer must carry the shares of investment companies "long" in the appropriate customer account;
- 3) the broker-dealer must reflect separately for the securities of each fund all positions in their securities records or ledgers maintained pursuant to Rule 17a-3 under the Securities Exchange Act,

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- 4) the broker-dealer may not use the investment company shares in one customer's account which are not required for possession or control to satisfy the possession or control obligations related to other customers, and;
- 5) the broker-dealer must not be aware of any substantial problems of an operational nature which the fund may be experiencing and which may endanger the securities of the customer.

A broker-dealer is not compelled to carry the securities for a customer; instead, a broker-dealer may transmit the money of the customer to the mutual fund and have no further control over the securities. In that case, no possession or control issue would arise under Rule 15c3-3.

Sincerely,



Michael A. Macchiaroli
Assistant Director