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

DIVISION OF
MARKET REGULATION

March 19, 1984

Mr. Maurice J. Minen
Director of Financial
and Operational Standards
New York Stock Exchange, Inc.
55 Water Street
New York, New York 10041

Dear Mr. Minen:

This is in response to your October 14, 1982 letter wherein you request a "no-action" position from the Division regarding the treatment of certain items in the computation of reserve requirements under Rule 15c3-3 of the Securities Exchange Act of 1934 (17 CFR §240.15c3-3).

With respect to the questions you raised regarding dividend and interest receivables, we understand the facts to be as follows: Some New York Stock Exchange ("NYSE") member firms, as a matter of practice, credit their customers' accounts for dividends and interest on payable date even though these funds have not yet been received by the firm. As these amounts are recorded as credit items in the "Formula for Determination of Reserve Requirement for Brokers and Dealers" (the "Formula") as computed under Rule 15c3-3, you suggest that firms be allowed to offset these credit items by recording as debit items in the Formula the amounts receivable from the Depository Trust Company ("DTC"), directly allocable to the dividends and interest payable to customers.

The Division will raise no question and recommend no action be taken if broker-dealers include as debit items in the Formula amounts representing dividends and interest receivables provided that:

1) the debit items are allocable to credits in the Formula, resulting from the firm's crediting its customer accounts for the same dividends or interest;

2) the dividends or interest receivables are due from DTC; and

3) the receivables are outstanding for no more than five days.

With respect to your questions regarding the situation where the firm has a customer long position allocated against a proprietary short position, we understand the facts to be as follows: A NYSE member firm has been creating "reverse conversions", a trading strategy whereby securities are sold short while maintaining hedged positions in listed options (i.e., long calls and short puts). In order to satisfy its contractual obligation as a short seller, the member firm delivers customer margin securities if available. The Rule requires that if the customer long positions allocate to the firm short positions, the market value of the long positions must be included as a credit item in the Formula. The firm believes that this treatment is not appropriate. In essence, the firm believes that the reverse conversion positions result in a reduction in risk that warrants excluding the customer credit from the Formula.

Rule 15c3-3 was designed to restrict customer funds and securities from use by the broker or dealer in its proprietary trading. While the broker or dealer may use in accordance with the Rule a customer's margin securities in its business, that use produces a credit item in the Formula. To exclude that credit from the Formula based on a theory of risk would be contrary to the clear intent of the Rule. Accordingly, the Division is unable to grant your request for a no-action position with respect to this issue.

Sincerely,

Michael A. Macchiaroli

Michael A. Macchiaroli
Assistant Director