



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

February 14, 1986

Mr. Robert B. Gilmore  
Senior Vice President  
Philadelphia Stock Exchange, Inc.  
Philadelphia Stock Exchange Building  
1900 Market Street  
Philadelphia, Pennsylvania 19103

Dear Mr. Gilmore:

This is in response to various letters sent by you on behalf of the Philadelphia Stock Exchange with respect to the treatment of certain offsetting positions in foreign currency options and forwards under Rule 15c3-1 (17 CFR 240.15c3-1).

We understand the facts to be as follows: Broker-dealers that take positions in foreign currency options on the seven major currencies 1/ often establish offsetting contracts to purchase or sell forward the same currency as a means of limiting their risk exposure. Because Rule 15c3-1 does not recognize those offsetting positions as "hedged", those positions are treated separately under the rule, and the resultant deductions from net worth in arriving at net capital ("haircuts") are higher than if the combined positions were treated as hedged under the Rule. Currently, the net capital rule's treatment of options positions are provided for under subparagraph (c)(2)(x) or Appendix A 2/ of the Rule. The haircut on an unhedged foreign currency forward position, like an unhedged foreign currency, is set at 6%.

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1/ The seven major currencies are: The Deutsche mark, the British pound, the Swiss franc, the French franc, the Canadian dollar, the Japanese yen, and the European Currency Unit.

2/ Pursuant to an October 23, 1985 no-action letter from the Division of Market Regulation, broker-dealers may elect for their proprietary options positions the premium-based haircuts outlined in that letter rather than the haircuts under Appendix A.



With respect to offsetting positions in forwards obtained in the interbank market and options in the seven major foreign currencies, the Division will raise no question nor recommend any action to the Commission if:

(i) In computing charges under Appendix A or (c)(2)(x), the broker-dealer treats the forward as a "security"; however, in no event shall the charge be less than one percent of the value of the forward position; and

(ii) The broker-dealer deducts from net worth in arriving at net capital the amount by which the net gain on currency forwards with any one counter-party plus 3% of the net forward position in each currency with that counter-party exceeds 30% of the broker-dealer's net capital before the application of subparagraphs (2)(vi) or (f)(3) of Rule 15c3-1.

If you have any further questions, please feel free to call.

TNC

Sincerely,

*Michael A. Macchiaroli*

Michael A. Macchiaroli  
Assistant Director