

Mr. Frank A. Langheinrich

Prince, Langheinrich & Greer

350 South 400 East Salt Lake City, Utah 84111

Dear Mr. Langheinrich:

This is in response to your letter written on behalf of Prince, Langheinrich & Greer received by the Division on April 4, 1977 in which you raise a number of questions regarding the application of Rules 15c3-1 (17 CFR 240.15c3-1) and 15c3-3 (17 CFR 240.15c3-3) under the Securities Exchange Act of 1934.

Specifically, you raise the following questions:

1. Pursuant to Rule 15c3-1, are securities drafted to another broker-dealer, to satisfy a fail to deliver, subject to the subparagraph (c)(2)(ix) deduction for aged fails to deliver;
2. Are debit items representing securities drafted includable in the Exhibit A-Formula for Determination Reserve Requirements of Broker-Dealers (Reserve Formula) under Rule 15c3-3; and
3. Are amounts representing stocks borrowed to satisfy a delivery on a fail to deliver contract includable as a debit in the Reserve Formula.

It is the Division's view that the subparagraph (c)(2)(ix) deductions do not apply to securities drafted to satisfy a fail to deliver contract. It should be noted, however, that if for any reason the security so drafted is not "accounted for" the contra broker-dealer that the fail to delivery contract is aged from the date of the original settlement date and subject to the (c)(2)(ix) deduction. In addition, amounts representing drafts for collection are included in the Reserve Formula provided that such debits have not reduced a credit to the Reserve Formula.

However, if the draft receivable is outstanding for more than 30 calendar days the debits representing such drafts are excluded from the Reserve Formula. Finally, amounts representing receivables for stock borrowed to make delivery against a fail to deliver shall be included as a debit in the Reserve Formula and are not subject to any aging limitations under Rule 15c3-1 or 15c3-3.

If you have any further questions, please contact me.

Sincerely

Robert L. Smith

Securities Operations Specialist

Mr. Robert L. Smith

Securities & Exchange Commission

500 North Capitol

Washington, D.C

Apologizing in advance, I need written verification of the following items we have discussed.

At such time as a fail-to-deliver is drafted, the aging process for purposes of 15c3-1 stops. If such an item is rejected, however, such item is aged from settlement date as though it had never been drafted at all.

For purposes of computing our reserve requirement under Rule 15c3-3, drafted items are not good debits once the item is older than 30 calendar days.

If we settle a fail-to-deliver by borrowing securities, our "stock borrowed" account is a good debit item for purposes of Rule 15c3-3, and is aged neither for purposes of 15c3-1 nor 15c3-3.

In as much as we have discussed this, and it was an item of contention during our most recent NASD examination, your written response will be very much appreciated.

Sincerely,

Frank A. Langheinrich