

Shearson Hayden Stone Inc.

June 13, 1977

Pursuant to the requirements of Rule 15C-3-3, It is unclear whether or not book overdraft which are created by drawing checks against firm bank accounts should be taken on the credit side of the formula. There arises another issue and that is the collateral used at the bank to cover the zero balance credit line account against which a book overdraft is created. If a firm writes a check against a firm account and does not in so doing reduce customer's credit balances, and the zero balance credit line account against which the check was issued is either unsecured at the bank or secured with firm collateral should the book overdraft be taken as a credit on 15C-3-3? The proceeds of these overdrafts have many times been used to finance customer margin debit balances in lieu of bank loans. These overdrafts then are in effect unsecured non interest bearing firm bank loans, the proceeds of which are used to finance customer debits. Since firm collateralized or unsecured bank loans do not have to be included on the credit side of 15C-3-3 should not this then also include firm secured or unsecured book overdrafts?

I would be more than happy to discuss all of the details of this situation with you either in person or on the telephone.

The New York Stock Exchange has recently completed an audit of Shearson Hayden Stone Inc., more specifically 15C-3-3. It is their opinion that these overdrafts should be taken on the credit side of the formula. For the material of our audit, you may contact Edward Cummings at the New York Stock Exchange.

I am eager to resolve this difference of opinion with the Exchange and look forward to your earliest reply.

In your letter of December 27, 1976, you request on behalf of Shearson Hayden Stone Inc. ("Shearson") the Division's view with respect to the reporting of checks drawn in excess of firm bank balances required in Item No. 1 of the Formula for Determination of Reserve Requirements for Brokers and Dealers ("Reserve

Formula"), Exhibit A of Rule 15c3-3 (17 CFR 240.15c3-1 a) under the Securities Exchange Act of 1934.

It is the Division's view that Note A of the Reserve Formula requires a broker or dealer to include checks drawn in excess of a bank balance per the records of the broker or dealer in Item No. 1 of the Reserve Formula.

You further request the Division's view whether proceeds are derived as the result of writing a check on a credit line account, which account is unsecured, is required to be included as a credit in the Reserve Formula. We understand the pertinent facts to be as follows: Shearson has established a credit line account with a bank; proceeds from such credit line account are used to cover any overdraft on a firm bank account; the credit line account is either unsecured or secured with firm collateral; and proceeds from the credit line account are used to finance customer margin debit balances in lieu of bank loans. You state that the proceeds are in effect unsecured noninterest bearing firm bank loans.

It is the view of the Division that where the broker or dealer utilizes a credit line account, the proceeds derived from writing checks to customers on such account are required to be included as a credit in the Reserve Formula. However, where the proceeds of the loan are deposited in a bank account to cover checks or drafts to customers, the transaction would appear to be a borrowing, which would not be included in the Reserve Formula.

If you have further questions, please contact us.