

NOV 4 1976

Mr. Ernest M. Grunebaum

Stuart Brothers

55 Broad Street New York, New York 10004

Dear Mr. Grunebaum:

This is in response to your letter of September 9, 1976, on behalf of Stuart Brothers requesting clarification of the Division's letter of August 25, 1976 regarding the treatment pursuant to Rule 15c3-1 (17 CFR 240.15c3-1) under the Securities Exchange Act of 1934, of deficits in partly secured reverse repurchase agreements ("RR/P's") in securities issued by, or guaranteed as to principal and interest, by the United States Government.

As explained in the Division's letter of August 25, 1976, mark to the market deficiencies in RR/P's should be deducted from net worth in the determination of net capital pursuant to subparagraph (c)(2)(iv)(E) of Rule 15c3-1.

However, the Division noted that when such RR/P's are executed with "customers or non-customers" which have net tangible assets of 16 million dollars (\$16,000,000) or more, no question shall be raised by the staff where the following percentages of the mark to the market deficit is charged to net worth in lieu of the deductions required by subparagraph (c)(2)(iv)(E) of the Rule:

1. RR/P's with 30 calendar days or less to maturity - 0%
2. RR/P's with 31-90 calendar days to maturity - 25%
3. RR/P's in excess of 90 calendar days to maturity - 100%; and
4. The amount by which the deficit in all such RR/P's exceed 5% of net capital before the application of subparagraphs (c)(2)(vi), (f)(3) or Appendix A of Rule 15c3-1.

With regard to the above, the Division wishes to clarify that:

1. Deficits in RR/P's entered into with other broker-dealers shall be charged to net worth in the same manner as set forth in items 1., 2., 3. and 4. above;
2. The excess collateral in one RR/P may reduce the deficit in another RR/P in the same account or related account of the same "customer or non-customer"; and
3. Item 4. above applies only to the net deficit in each account or related accounts subject to items 1. and 2. above.

If you have any questions regarding this matter, please contact me.

Sincerely,

Robert L. Smith

Securities Operations

Specialist