COLUMBUS, NEBRASKA

That airspace extending upward from 700 feet above the surface within a 6-mile radius of the Columbus, Nebraska Airport, and within 3.5 miles each side of the Columbus VOR 152° radial, extending from the 6-mile radius to 11.5 miles southeast of the VOR, and within 3½ miles west and 4 miles east of the Columbus VOR 324° radial, extending from the 6-mile radius to 11½ miles northwest of the VOR.

[FR Doc.75-33446 Filed 12-11-75;8:45 am]

[Airspace Docket No. 75-CE-11]

PART 71—DESIGNATION OF FEDERAL AIRWAYS, AREA LOW ROUTES, CONTROLLED AIRSPACE, AND REPORTING POINTS

Designation of Transition Area

On pages 44576 and 44577 of the FEDERAL REGISTER dated September 29, 1975, the Federal Aviation Administration published a Notice of Proposed Rule Making which would amend § 71.181 of Part 71 of the Federal Aviation Regulations so as to designate a transition area at Maquoketa, Iowa.

Interested persons were given 30 days to submit written comments, suggestions or objections regarding the proposed amendment.

No objections have been received and the proposed amendment is hereby adopted without change and is set forth below.

This amendment shall be effective 0901 G.m.t., January 29, 1976.

(Sec. 307(a), Federal Aviation Act of 1958, (49 U.S.C. 1348), sec. 6(c), Department of Transportation Act, (49 U.S.C. 1655(c)))

Issued in Kansas City, Mo., on November 19, 1975.

C. R. MELUGIN, Jr.,
Director,
Central Region.

In § 71.181 (40 FR 441), the following transition area is added:

MAQUOKETA, IOWA

That airspace extending upward from 700' above the surface within a 7-mile radius of the Maquoketa Airport (latitude 42°03'00" N., 90°45'00" W.); and that airspace three miles each side of the 343° bearing from the Maquoketa NDB (latitude 42°03'05" N., longitude 90°44'27" W.); extending from the 7-mile radius area to 8.5 miles northwest of the NDB.

[FR Doc.75-33447 Filed 12-11-75;8:45 am]

Title 17—Commodity and Securities Exchanges

CHAPTER II—SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-11854]

PART 240—GENERAL RULES AND REGULATIONS, SECURITIES EXCHANGE ACT OF 1934

PART 241—INTERPRETATIVE RELEASES RELATING TO THE SECURITIES EXCHANGE ACT OF 1934 AND GENERAL RULES AND REGULATIONS THEREUNDER

Brokers and Dealers Effecting Transactions in Municipal Securities

Adoption of a financial responsibility program pertaining to transactions in municipal securities, including the adoption of certain amendments, temporary amendments and interpretations to the uniform net capital rule (Rule 15c3-1) [17 CFR 240.15c3-1], the customer protection rule (Rule 15c3-3) [17 CFR 240.15c3-3] and other related financial responsibility and reporting rules.

The Securities and Exchange Commission today announced the adoption of certain amendments, temporary amendments and interpretations of Rule 15c3-1 [17 CFR 240.15c3-1] and Rule 15c3-3 [17 CFR 240.15c3-3], as well as of related financial responsibility and reporting rules under the Securities Exchange Act of 1934. The amendments are intended to modify temporarily and, some instances, permanently the impact of such rules on brokers and dealers effecting transactions in municipal securities.

The Commission believes that the temporary amendments are necessary and appropriate in the public interest and for the protection of investors in light of comments received from the public, and will afford the Commission the opportunity to consider and develop appropriate financial responsibility and reporting standards while providing protection to investors.

Introduction. Prior to the Securities Acts Amendments of 1975,[1] (the "1975 Amendments") municipal securities were included within the definition of "exempted securities" as defined in section 3(a)(12) of the Securities Exchange Act of 1934 (the "Act"). The 1975 Amendments embodied a congressional conclusion that the protection of investors requires the regulation of brokers and dealers who effect transactions in municipal securities. "The [Senate Banking, Housing and Urban Affairs] Committee has concluded the time has come to revise the Exchange Act to subject municipal securities professionals to essentially the same regulatory scheme that applies to other securities activities."[2]

Implementing this conclusion, the 1975 Amendments, *inter alia*, excised municipal securities from the class of exempted securities for purposes of section 15(c)(3) of the Act, effective December 1, 1975. Moreover, the 1975 Amendments amended section 15(c)(3) to require the Commission to establish minimum financial responsibility requirements for all brokers and dealers no later than September 1, 1975. While thus subjecting brokers and dealers who effect transactions in municipal securities to Commission financial responsibility regulation, Congress, nonetheless, remained cognizant that the often unique structure of the municipal securities industry might somehow indicate financial responsibility rules different from those applicable to other members of the securities industry. In particular, Congress cautioned that "it may not be appropriate to apply the existing net capital rules to firms that are solely brokers in municipal securities, whose only customers are professional securities dealers and banks. The limited risks inherent in this form of business may justify less stringent rules without danger to the public."[3]

The 1975 Amendments became law on June 4, 1975. At that time the Commission was completing development of a uniform net capital rule subsequently adopted pursuant to section 15(c)(3) on June 26, 1975, effective September 1, 1975.[4] Thus it is contemplated that Rule 15c3-1 [17 CFR 240.15c3-1] as amended (the "Rule"), would be in place by the time municipal securities brokers and dealers become subject to section 15(c)(3) on December 1, 1975. Accordingly, the Commission, directed to establish minimum financial responsibility standards for brokers and dealers effecting transactions in municipal securities consistent with the protection of investors, and cognizant of the unique features of this industry, included a request for comments in the release adopting the Rule.[5] The Commission reiterated this request in Securities Exchange Act Release No. 11561 (July 30, 1975), [40 FR 33747 (Aug. 11, 1975)] soliciting public comment concerning any special problems which Rule 15c3-1 would pose to the municipal securities industry. When certain members of the public requested additional time in which to present their views and supporting data on these matters, the Commission extended the public comment period until October 15, 1975.[6]

In response to these releases, the Commission received a number of thoughtful comment letters. Salient among the numerous issues they raised were minimum net capital requirements under Rule 15c3-1 (a) and (f) [17 CFR 240.-15c3-1(a), (f)], the appropriate haircuts for municipal notes, the treatment of undue concentrations in municipal securities, and the fact that municipal securities trading markets are structurally different from the markets on which the Rule's nonmarketability provisions were premised. More generally, the Commission became aware of the need to prescribe emergency temporary relief from a number of the Rule's provisions. This is necessary both to enable

[1] Act of June 4, 1975, Publ. L. No. 94-29, 89 Stat. 97.

[2] S. Rep. No. 75, 94th Cong., 1st Sess. 43 (1974).

[3] S. Rep. No. 75, 94th Cong., 1st Sess. 43 (1974).

[4] Securities Exchange Act Release No. 11497 (June 26, 1975); 40 FR 29795 (July 16, 1975). However, Rule 15c3-1(g)(1), 17 CFR 240.15c3-1(g)(1) provides that computations of aggregate indebtedness and net capital for purposes of Rule 15c3-1(a), 17 CFR 240.15c3-1(a) may until January 1, 1976, be made pursuant to the capital rule to which a broker or dealer was subject prior to September 1, 1975. This effectively postponed the effective date of all provisions except Rule 15c3-1(a), 17 CFR 240.15c3-1(a) (minimum net capital requirements) and Appendix D, 17 CFR 240.15c3-1d (satisfactory subordination agreements) until January 1, 1976.

[5] Securities Exchange Act Release No. 11497 (June 26, 1975), 40 FR 29795 (July 16, 1975).

[6] Securities Exchange Act Release No. 11656 (Sept. 16, 1975), 40 FR 43743 (Sept. 23, 1975).

brokers and dealers effecting transactions in municipal securities and those firms newly subject to Commission regulation to make a smooth transition to the requirements of Rule 15c3–1 [17 CFR 240.15c3–1] and to allow the Commission to consider and develop appropriate permanent capital standards for brokers and dealers effecting transactions in municipal securities.

The Commission is aware that some brokers and dealers effecting municipal securities transactions may experience initial difficulty in understanding net capital requirements as set forth in Rule 15c3–1 [17 CFR 240.15c3–1]. The Commission points out that the Rule affords to these brokers and dealers the same opportunities afforded to all registered brokers and dealers. Specifically, while the minimum net capital requirements set forth in Rule 15c3–1(a) [17 CFR 240.15c3-1(a)] generally provide for net capital of not less than $25,000, only $5,000 net capital is required of brokers and dealers who (1) carry no customer accounts, (2) do not hold customers' funds or securities and do not owe funds or securities to customers, and (3) restrict their business to certain specific activities.[7] These activities include acting as an introducing broker on a fully disclosed basis, participating as a broker or dealer in underwritings on a "best efforts" or "all or none" basis, and (promptly) forwarding subscriptions to the issuer, underwriter or other distributor of the securities where payment is made through the broker or dealer in the form of checks, notes or other evidences of indebtedness made payable solely to the distributor of the securities. Permitted activities also include occasional transactions for the broker's or dealer's investment account, as well as engaging, while acting as an introducing broker on a fully disclosed basis, in riskless principal transactions, and effecting (but not clearing) broker transactions on a national securities exchange for the account of another member of the exchange. The Commission believes that many newly registered and newly regulated brokers and dealers may wish to consider operating as a "$5,000 broker or dealer" in accordance with the provisions of Rule 15c3–1(a)(2) [17 CFR 240.15c3–1(a)(2)].

Rules adopted pursuant to sections 15(c)(2), 15(c)(3) and 17(a) of the Act establish a comprehensive financial responsibility and reporting program for brokers and dealers. Municipal securities bank dealers similarly operate under regulatory programs maintained by the bank regulatory authorities. Brokers and dealers effecting transactions solely in municipal securities have not been subject to either a Commission program or a bank regulatory program in this area, even though they may hold substantial quantities of customer funds and securities. Upon registration with the Commission, they may join other brokers and dealers within the ambit of the Securities Investors Protection Act of 1970.[8] These considerations, among others, underlie the 1975 amendments to sections 15(c)(2), 15(c)(3) and 17(a) of the Act, which sections now apply to all brokers and dealers, including those effecting transactions solely in municipal securities.

In addition, section 15B(b)(2) of the Act grants rulemaking authority to the Municipal Securities Rulemaking Board. The Commission will work with the Board in the development of a sound regulatory program for all brokers and dealers effecting transactions in municipal securities. Until a coordinated program can be formulated and implemented, the Commission believes that the public interest and the protection of investors require that these brokers and dealers become subject to certain of its existing rules, and that certain amendments and interpretations to these rules be adopted. Accordingly, the Commission publishes amendments and interpretations designed to establish a brief period of transition and adjustment during which these brokers and dealers can prepare to come into compliance with these rules.

The Commission hereby solicits comments from all interested persons and self-regulatory organizations and, in particular, the Municipal Securities Rulemaking Board, concerning the shaping of a comprehensive, permanent financial responsibility and reporting program for brokers and dealers effecting transactions in municipal securities. The Commission also notes that the offices of the Commission and the self-regulatory organizations stand ready to assist all brokers and dealers in developing programs designed to allow them to come into compliance with the financial responsibility and reporting rules.

Assistance for New Registrants. Brokers and dealers facing financial responsibility regulation for the first time should note that the National Association of Securities Dealers ("NASD") maintains fourteen offices throughout the country, that there are the offices of the exchanges, and that the Commission maintains a network of Regional and Branch offices, which, if contacted, may be able to assist these brokers and dealers in marshalling their capital and restructuring their operations in order to comply with Rule 15c3–1 [17 CFR 240.15c3–1] and related rules. In any event, the offices of the NASD and the exchanges, as well as the Commission's offices whose locations and phone numbers are set out in the footnote,[9] stand ready to assist brokers or dealers unfamiliar with financial responsibility regulation.

Miami Branch Office, Dupont Plaza Center, 300 Biscayne Boulevard Way, Suite 701, Miami, Florida 33131, 305/350–5765.
Cleveland Branch Office, Federal Office Building, 1240 East Ninth Street, Room 899, Cleveland, Ohio 44199, 216/522–4060.
St. Louis Branch Office, 210 North 12th Street, Room 1452, St. Louis, Missouri 63101, 314/425–5555.
Houston Branch Office, Federal Office and Courts Bldg., 515 Rusk Avenue, Room 7615, Houston, Texas 77002, 713/226–4986.
Salt Lake Branch Office, Federal Reserve Bank Bldg., 120 South State Street, Salt Lake City, Utah 84111, 801/524–5796.
San Francisco Branch Office, 450 Golden Gate Avenue, Box 36042, San Francisco, California 94102, 415/556–5264.
Washington Regional Office, Ballston Centre Tower 3, 4015 Wilson Boulevard, Arlington, Virginia 22203, 703/557–8201.

Local District Offices of the NASD, as well as the offices of the other self-regulators, are also available for consultation with their member organizations.

Brokers and dealers engaging in municipal securities transactions who are in doubt as to their ability to comply with Rule 15c3–1 [17 CFR § 240.15c3–1] are urged especially to consult with these offices. The staff may be able to assist such firms in the formulation and implementation of plans designed to insure compliance with the Rule.

AMENDMENTS AND TEMPORARY AMENDMENTS TO RULE 15c3–1 TEMPORARY AMENDMENT TO AND INTERPRETATION OF RULE 15c3–1(g)—TIMING OF IMPLEMENTATION OF THE RULE

Brokers and Dealers Effecting Transactions in Municipal Securities. Rule 15c3–1(g)(1) [17 CFR 240.15c3–1(g)(1)] provides that the minimum net capital requirements of paragraph (a) [17 CFR 240.15c3–1(a)] (as well as the provisions governing satisfactory subordination

[7] Rule 15c3–1(a)(2)(i)–(vi), 17 CFR 240.15c3–1(a)(2)(i)–(vi).

[8] Municipal securities brokers and dealers registered under section 15B(a) of the Act, unlike those registered under section 15(b) of the Act, are not required to become members of SIPC. *See* section 3(a)(2) of the Securities Investor Protection Act of 1970, 15 U.S.C. section 78ccc(a)(2) (1970). Thus, registered municipal securities dealers which are banks (or separately identifiable departments or divisions of banks), as well as exclusively intrastate municipal securities brokers and dealers using the jurisdictional means, both of which register under section 15B(a), need not join SIPC.

[9] See the following list:
New York Regional Office, 26 Federal Plaza, New York, New York 10007, 212/264–1614.
Atlanta Regional Office, 1371 Peachtree Street, N.E., Suite 138, Atlanta, Georgia 30309, 404/892–0737.
Chicago Regional Office, Everett McKinley Dirksen Bldg., 219 South Dearborn Street, Room 1708, Chicago, Illinois 60604, 312/353–7390.
Detroit Branch Office, 1044 Federal Building, Detroit, Michigan 48226, 313/226–6070.
Fort Worth Regional Office, 503 U.S. Court House, 10th and Lamar Streets, Fort Worth, Texas 76102, 817/334–3393.
Denver Regional Office, Two Park Central Room 640, 1515 Arapahoe Street, Denver, Colorado 80202, 303/837–2071.
Los Angeles Regional Office, 10460 Wilshire Blvd., Suite 1710, Los Angeles, California 90024, 213/473–4511.
Seattle Regional Office, 3040 Federal Building, 915 Second Avenue, Seattle, Washington 98174, 206/442–7990.
Philadelphia Branch Office, Federal Building, 600 Arch Street—Room 2204, Philadelphia, Pennsylvania 19106, 215/597–2278.
Boston Regional Office, 150 Causeway Street, Boston, Massachusetts 02114, 617/223–2721.

agreements in Appendix D [17 CFR 240.-15c3–1d]) become effective on September 1, 1975. This subparagraph also provides that until January 1, 1976, brokers and dealers may continue to compute aggregate indebtedness and net capital in accordance with the respective capital rules to which the broker or dealer was subject prior to September 1, 1975. The net effect of these provisions is to allow brokers and dealers to make their capital computations in accordance with the rule under which they had been operating, for purposes of determining compliance with the Rule. These provisions were intended to provide a period during which brokers and dealers subject to former Rule 15c3–1 or the capital rule of an exchange could familiarize themselves with the computational modifications required by the uniform net capital rule. However, section 3(a)(12) of the Act provides that as of December 1, 1975 municipal securities lose their former status as "exempted securities." While the computational provisions of the uniform net capital rule do not become effective until January 1, 1976, firms still computing aggregate indebtedness and net capital under one of the former net capital rules would face unworkable conditions for the month of December 1975, to the extent that they engaged in municipal securities transactions. Such brokers and dealers thereby would be deprived of much of their familiarization period, contrary to the Commission policy as embodied in Rule 15c3–1(g)(1) [17 CFR 240.15c3–1(g)(1)].

The Commission is of the view that all brokers and dealers subject to former Rule 15c3–1 should be afforded an equal opportunity to prepare to implement the uniform net capital rule, regardless of the nature of their business. Accordingly, the Commission amends Rule 15c3–1(g)(1) [17 CFR § 240.15c3–1(g)(1)] to provide that municipal securities shall be deemed to be exempted securities for purposes of computing aggregate indebtedness and net capital computations pursuant to former Rule 15c3–1.

Commission Action. Pursuant to sections 15(c)(3) and 23(a) of the Securities Exchange Act of 1934, the Commission amends § 240.15c3–1(g)(1) in Part 240 of Chapter II of Title 17 of the Code of Federal Regulations to read as follows:

* * * * *

(g)(1) On September 1, 1975 the provisions of paragraph (a) of this section and Appendix D (17 CFR 240.15c3–1) shall be applicable to all brokers or dealers subject to the provisions of this section; provided, however, that until no later than January 1, 1976 the computation of aggregate indebtedness and net capital may continue to be computed pursuant to the respective capital rules to which the broker or dealer was subject prior to September 1, 1975. Provided further, that for purposes of such computaitons, municipal securities shall be deemed to be exempted securities.

The Commission expects that the seven national securities exchanges which now maintain net capital rules will, in accordance with the policy underlying this amendment to Rule 15c3–1(g)(1) [17 CFR 240.15c3–1(g)(1)], take a similar position concerning their own capital rules.

Brokers and Dealers Effecting Transactions Solely in Municipal Securities. The interface between Rule 15c3–1(g)(1) [17 CFR 240.15c3–1(g)(1)] and section 3(a)(12) of the Act detailed above poses different problems in the case of brokers and dealers effecting transactions solely in municipal securities, who must register with the Commission on or before December 1, 1975, pursuant to sections 15(a)(1) and 15B(a) of the Act. While the Commission, by temporary rules, has exempted these brokers and dealers from registration requirements until June 1, 1976, these temporary rules condition such exemption upon compliance with all other applicable provisions of the Act and rules thereunder,[10] including Rule 15c3–1 [17 CFR 240.15c3–1]. Unless the Commission modifies Rule 15c3–1(g) [17 CFR 240.15c3–1(g)], these brokers and dealers would have to calculate aggregate indebtedness and net capital during December pursuant to former Rule 15c3–1 [17 CFR 240.-15c3–1]. Accordingly, during December these brokers and dealers would be required to take as much as a 30% haircut on all municipal securities held long or short in their proprietary or other accounts, pursuant to former Rule 15c3–1(c)(2)(iii)(d), as opposed to a maximum of 5% under the uniform rule, which would come into effect on January 1, 1976. Such a result would be unintended. Moreover, those newly registered brokers and dealers wishing to compute net capital under the alternative method provided by paragraph (f) of the uniform rule would be unable to do so until January 1, 1976; during December their only option would be former Rule 15c3–1.

The Commission is of the view that the protection of investors requires that newly registered brokers and dealers effecting transactions solely in municipal securities be afforded a period of transition and adjustment to the new experience of net capital regulation. To this end, the Commission has found it necessary and appropriate to amend paragraph (g) of the uniform net capital rule to provide, in a new subparagraph (g)(3), that for the month of December, 1975, brokers and dealers effecting transactions solely in municipal securities, on written notice to the Commission and their Examining Authority, may elect to operate under all provisions of the uniform net capital rule, as amended by this release. In particular, the Commission notes that new Rule 15c3–1(g)(3) [17 CFR 240.15c3–1(g)(3)] would allow brokers and dealers effecting transactions solely in municipal securities to operate under the alternative net capital requirement of Rule 15c3–1(f) [17 CFR § 240.15c3–1(f)] beginning in December, 1975.

Commission Action. Pursuant to sections 15(c)(3) and 23(a) of the Securities Exchange Act of 1934, the Securities and Exchange Commission adds a new paragraph (g)(3) to § 240.15c3–1 in Part 240 of Chapter II of Title 17 of the Code of Federal Regulations reading as follows:

* * * * *

(g) * * *

(3) In lieu of the provisions of paragraph (g)(1) of this section, a broker or dealer effecting transactions solely in municipal securities who is either registered with the Commission or temporarily exempt from such registration pursuant to § 240.15a–1(T) or § 240.15Ba2–3(T) may elect, on written notice to the Commission and such broker's or dealer's Examining Authority, if any, to operate after November 30, 1975, under this § 240.14c3–1, as amended.

TEMPORARY AMENDMENT TO RULE 15c3–1(c)(1)(i)—EXCLUSION OF OVERNIGHT BANK LOANS FROM AGGREGATE INDEBTEDNESS

In many cases, a purchasing dealer of municipal securities will fail to take delivery of the securities on settlement date because of delays in issuing instructions to the clearing bank or broker. Delivery, when made, often occurs too late in the day to allow the purchasing dealer to accomplish same day redelivery to a purchaser to whom he has resold the securities. In such circumstances, in order to pay for the securities delivered to him, the dealer must borrow against the securities failed to deliver on an overnight basis.

A fail to receive offset by a fail to deliver is excluded from aggregate indebtedness (AI) pursuant to Rule 15c3–1(c)(1)(iii) [17 CFR 240.15c3–1(c)(1)(iii)]. However, once the securities are received (and not redelivered on the same day) and the dealer borrows against them, his position is long in fail to deliver and short in bank loan. Since these securities are not carried long in the proprietary or other accounts of the broker or dealer, the indebtedness they secure must be included in AI pursuant to Rule 15c3–1(c)(1)(f) [17 CFR 240.-15c3–1(c)(1)(i)].

The list of exclusions from AI presently contained in Rule 15c3–1(c)(1) [17 CFR 240.15c3–1(c)(1)] is the result of years of study and careful consideration. Former Rule 15c3–1(c)(1) had contained fewer exclusions, and during the development of the uniform Rule much attention was devoted to the subject of further exclusions from AI. Numerous public comments urged that the list of exclusions include overnight bank loans, as well as many other items, and were carefully weighed.

Under the existing rules of the major national securities exchanges[11] there is

[10] 17 C.F.R. 240.15a–1(T)(b) (1975); 17 C.F.R. 240.15Ba2–3(T)(b) (1975). These temporary rules, which expire on June 1, 1976, were adopted in Securities Exchange Act Release No. 11742 (Oct. 15, 1975), 40 FR 49772 (Oct. 24, 1975).

[11] *See* Joint Regulatory Report, (New York Stock Exchange; American Stock Exchange; National Association of Securities Dealers) (3½% charge to capital).

a charge to capital for indebtedness collateralized by exempted securities, which would include overnight loans collateralized by municipal securities. The incorporation into the Rule of a similar charge to capital, generally, and as regards municipal securities, was weighed and found to be reasonable with respect to existing brokers and dealers and did not reflect a significant increase in capital requirements. Impact studies directed to the overall effect of the Rule specifically considered the subject of overnight bank loans. These studies reflected the contemplated effect of all proposed amendments to the net capital rule upon existing registered brokers and dealers, but did not reflect the contemplated effect on brokers or dealers effecting transactions solely in municipal securities. On the basis of impact studies and comments, several new and significant items were excluded from AI, including deferred tax liabilities, credit balances in the accounts of general partners, subordinated liabilities not the subject of a satisfactory subordination agreement, liabilities representing the amounts on deposit in Special Reserve Bank Accounts, credit balances representing amounts payable for money market instruments outstanding as long as three days, and fails to receive offset by matching fails to deliver. However, the Commission determined that exclusion of overnight bank loans would eliminate one of the important indicia of a broker's or dealer's liquidity. The uniform rule as adopted appears to represent a more rational test and, in some ways, notably the alternative method of computation, represents a substantial reduction in capital requirements.

A different situation is presented by those firms dealing solely in municipals, which will be required to register for the first time pursuant to the 1975 Amendments. The Commission has received public comment to the effect that overnight bank loans are so prevalent a practice in the municipal securities industry that inclusion of this item in AI would be disruptive to newly registered brokers and dealers effecting transactions solely in municipal securities. These firms largely did not participate in the comment process which preceded adoption of the uniform rule, nor did they have the benefit of time which would have permitted an orderly transition to the new rule. The Commission is of the view that the public's compelling interest in the stability of the securities markets requires that brokers and dealers effecting transactions solely in municipal securities be given a period of transition and adjustment to net capital regulation.

Therefore, in order to allow an orderly transition for these firms, the Commission is adopting a temporary amendment to the Rule. While the Commission thus finds it necessary and appropriate to permit temporarily this exclusion from AI, the effect of allowing only some members of the securities industry to take overnight bank loans without capital consequences mandates that this temporary relief be of a short duration. Accordingly, in order to permit these firms to make an orderly transition to net capital standards, the Commission amends Rule 15c3-1(c)(1)(i) [17 CFR 240.15c3-1(c)(1)(i)] to allow brokers and dealers effecting transactions solely in municipal securities to exclude overnight bank loans outstanding not more than one business day from AI for a period of four months beginning December 1, 1975 and ending on April 1, 1976.

If the clearance and settlement procedures in the municipals industry are improved, inclusion of the indebtedness in AI incurred pursuant to this long-standing practice of the municipals industry would be sharply reduced for all registrants.

Commission Action. Pursuant to sections 15(c)(3) and 23(a) of the Securithe Exchange Act of 1934, the Securities and Exchange Commission amends § 240.15c3-1(c)(1)(i) in Part 240 of Chapter II of Title 17 of the Code of Federal Regulations to read as follows:

* * * * *

(c) * * *

(1) * * *

(i) Indebtedness adequately collateralized by securities which are carried long by the broker or dealer and which have not been sold or by securities which collateralize a secured demand note pursuant to Appendix (D) to this § 240.15c3-1d; indebtedness adequately collateralized by spot commodities which are carried long by the broker or dealer and which have not been sold; or, until April 1, 1976, indebtedness adequately collateralized by municipal securities outstanding for not more than one business day and offset by municipal securities failed to deliver of the same issue and quantity, where such indebtedness is incurred by a broker or dealer effecting transactions solely in municipal securities who is either registered with the Commission or temporarily exempt from such registration pursuant to § 240.15a-1(T) or § 240.15Ba2-3(T);

* * * * *

TEMPORARY AMENDMENTS TO RULE 15c3-1(c)(2)(iv)(C)—RECEIVABLES ARISING FROM UNDERWRITING SYNDICATES AND JOINT ACCOUNTS

Most municipal securities underwriting syndicates and joint accounts operate on a much more protracted timetable than their corporate securities counterparts. Public comments indicate that in a municipal note underwriting, the closing occurs typically ten days to six weeks following commencement of the offering; the closing in municipal bond underwritings may take place two weeks to two months after the offering commences. Underwriting profits generally may be distributed anywhere between six and eighteen weeks after the closing, and good faith deposits are retained by the syndicate or account manager until profits are distributed.

Rule 15c3-1 [17 CFR 240.15c3-1] presently does not account for these established practices of the municipal securities industry. Good faith deposits outstanding more than eleven business days are deducted from net worth pursuant to Rule 15c3-1(c)(2)(iv)(C) [17 CFR 240.15c3-1(c)(2)(iv)(C)]. Receivables from municipal underwriting syndicates and joint underwriting accounts are, when all securities are sold, deductible from net worth as "other unsecured receivables" under Rule 15c3-1(c)(2)(iv)(E) [17 CFR 240.15c3-1(c)(2)(iv)(E)]. The Commission is of the view that the duration and conduct of public offerings of municipal securities may be an appropriate matter for consideration by the Municipal Securities Rulemaking Board. Until the Board is able to act, the Commission will adopt on a temporary basis certain suggestions received from the public. Thus, Rule 15c3-1(c)(2)(iv)(C) [17 CFR 240.15c3-1(c)(2)(vi)(C)] is amended to allow inclusion in net capital of receivables arising from municipal securities underwriting syndicates and joint underwriting accounts outstanding ninety days or less from settlement of the underwriting with the issuer until June 1, 1976. Furthermore, Rule 15c3-1(c)(2)(iv)(C) [17 CFR 240.15c3-1(c)(2)(iv)(C)] is amended to allow inclusion in net capital of good faith deposits arising in connection with a municipals underwriting and outstanding ninety days or less from settlement of the underwriting with the issuer, until June 1, 1976.

Commission Action. Pursuant to sections 15(c)(3) and 23(a) of the Securities Exchange Act of 1934, the Securities and Exchange Commission amends § 240.15c3-1(c)(2)(iv)(C) in Part 240 of Chapter II of Title 17 of the Code of Federal Regulations to read as follows:

* * * * *

(c) * * *

(2) * * *

(iv) * * *

(C) Interest receivable, floor brokerage receivable, commissions receivable from other brokers or dealers (other than syndicate profits which shall be treated as required in paragraph (c)(2)(iv)(E) of this section), mutual fund concessions receivable and management fees receivable from registered investment companies, all of which receivables are outstanding longer than thirty (30) days from the day they arise; dividends receivable outstanding longer than thirty (30) days from the payable date; good faith deposits arising in connection with an underwriting, outstanding longer than eleven (11) business days from the settlement of the underwriting with the issuer; and, until June 1, 1976, receivables due from participation in municipal securities underwriting syndicates and municipal securities joint underwriting accounts which are outstanding longer than ninety (90) days from settlement of the underwriting with the issuer, and good faith deposits arising in connection with an underwriting of municipal securities, outstanding longer than ninety (90) days from settlement of the underwriting with the issuer;

* * * * *

AMENDMENTS TO RULE 15c3-1(c)(2)(B)—HAIRCUTS ON MUNICIPAL NOTES

Rule 15c3-1(c)(2)(vi)(B) [17 CFR 240.15c3-1(c)(2)(vi)(B)] provides that

certain specified percentage deductions from market value ("haircuts") shall be taken on all municipal securities in the proprietary or other accounts of a broker or dealer. Numerous comments received from the public stressed that the haircuts on municipal notes (defined as municipal securities with maturities from date of issue of one year or slightly longer, which are issued at par value and pay interest at maturity or are issued at a discount) are unduly high. The public pointed out that the market behavior of municipal notes is closely similar to that of money market instruments such as commercial paper, certificates of deposit, and bankers' acceptances, all of which receive much lower haircuts pursuant to Rule 15c3-1(c)(2)(vi)(E) [17 CFR 240.15c3-1(c)(2)(vi)(E)]. Inasmuch as securities haircuts are intended as protection against downside market risk, the Commission is of the view that some adjustments to the haircuts on muinicipal notes are necessary and appropriate. The haircuts on municipal notes, as amended, are set out below.

Comments from the public also maintained that the haircuts on municipal bonds are unnecessarily high. However, unlike the case of municipal notes, the Commission received no data challenging the validity of statistical compilations upon which the municipal bond haircuts were originally based.[12] Therefore, the Commission is presently not in a position to reduce the haircuts on municipal bonds. The Commission remains receptive to public comment and study on this question, however, and would welcome further public input pursuant to its request for comments set forth later in this release.

Commission Action. Pursuant to sections 15(c)(3) and 23(a) of the Securities Exchange Act of 1934, the Securities and Exchange Commission amends § 240.15c3-1(c)(2)(vi)(B) in Part 240 of Chapter II of Title 17 of the Code of Federal Regulations to read as follows:

* * * * *

(c) * * *
(2) * * *
(vi) * * *

(B)(*1*) In the case of any municipal security which has a scheduled maturity at date of issue of 455 days or less and which is issued at par value and pays interest at maturity, or which is issued at a discount, and which is not traded flat or in default as to principal or interest, the applicable percentages of the market value on the greater of the long or short position in each of the categories specified below are:

(*i*) Less than 30 days to maturity—0%;

(*ii*) 30 days but less than 91 days to maturity—½ of 1%;

(*iii*) 91 days but less than 181 days to maturity—¼ of 1%;

(*iv*) 181 days but less than 271 days to maturity—⅜ of 1%;

(*v*) 271 days but less than 366 days to maturity—½ of 1%;

(*vi*) 366 days but less than 456 days to maturity—¾ of 1%.

(*2*) In the case of any municipal security, other than those specified in subdivision (B)(*1*), which is not traded flat or in default as to principal or interest, the applicable percentages of the market value on the greater of the long or short position in each of the categories specified below are:

(*i*) less than 1 year to maturity—1%;

(*ii*) 1 year but less than 2 years to maturity—2%;

(*iii*) 2 years but less than 5 years to maturity—3%;

(*iv*) 5 years or more to maturity 5%.

TEMPORARY AMENDMENTS TO RULE 15c3-1(c)(2)(vi)(M), (f)(3)(iii) — UNDUE CONCENTRATIONS

Rule 15c3-1(c)(2)(vi)(M) [17 CFR 240.15c3-1(c)(2)(vi)(M)] essentially provides that, for purposes of computing net capital, an additional deduction from net worth equal to one-half the appropriate haircut shall be taken against all positions of a broker or dealer in the securities of an issuer of a single class or series with a value exceeding 10% of tentative net capital. The provision does not apply to exempted securities, positions held eleven business days or less, positions in equity securities not exceeding the greater of 500 shares or $10,000 in market value, or debt securities positions not exceeding $25,000 in market value. A similar provision, Rule 15c3-1(f)(3)(iii) [17 CFR 240.15c3-1(f)(3)(iii)], applies to computations under the alternative net capital requirement.

Numerous public comments contended that these provisions, if applicable to positions in municipal securities, would have an inappropriately severe impact upon firms dealing largely or solely in municipal securities. These commentators contended that the market risks attending municipal securities are a function of interest rate fluctuations and thus impact more or less equally on all municipals of similar maturity and quality, regardless of their issuers. It is argued that these facts would render inappropriate provisions designed as downside protection against radical changes in the fortunes of single corporate issuers.

A second line of argument pursued in the comments was that present practices in the municipal industry require that municipal firms from time to time take positions, usually in respect of underwritings, which exceed the quantity and time parameters of the undue concentration provisions. These provisions, it was contended, penalize regular and historically safe practices of the municipal industry.

The Commission is not convinced that the municipal securities industry should be exempt from all adjustments in respect of undue concentrations. This industry, like any other, possesses established practices and norms. At some point the degree of concentration in a municipal dealer's accounts exceeds that norm which, *arguendo*, might itself exceed what is appropriate for the protection of investors and the stability of the securities markets. The Commission intends to establish undue concentration requirements for the municipal securities industry consistent with these public policies. However, the Commission is of the view that the present undue concentration provisions of the Rule may be inappropriate for the municipal securities industry as it currently conducts itself. The Commission is willing to provide a transitional period wherein the Commission, with the public's assistance, can explore this matter with a view towards determining in what respects the municipal securities marketplace is endemically incapable of conforming its positioning practices to those current elsewhere in the securities industry. Towards this end, the Commission later in this release invites public comment and impact studies concerning this question. Meanwhile, the Commission amends Rule 15c3-1(c)(2)(vi)(M) [17 CFR 240.15c3-1(c)(2)(vi)(*M*)] and Rule 15c3-1(f)(3)(iii) [17 CFR 240.15c3-1(f)(3)(iii)] to provide an exemption of six months' duration for positions in municipal securities.

Commission Action. Pursuant to sections 15(c)(3) and 23(a) of the Securities Exchange Act of 1934, the Securities and Exchange Commission amends § 240.15c3-1(c)(2)(vi)(M) and § 240.15c3-1(f)(3)(iii) in Part 240 of Chapter II of Title 17 of the Code of Federal Regulations by adding at the end thereof:

* * * * *

Provided further, That until June 1, 1976, this paragraph shall not apply to municipal securities.

TEMPORARY AMENDMENT TO RULE 15c3-1(c)(2)(ix)—AGED FAILS TO DELIVER

Rule 15c3-1(c)(2)(ix) [17 CFR 240.15c3-1(c)(2)(ix)] requires that appropriate haircuts be applied to securities failed to deliver outstanding fifteen business days or longer (eleven business days or longer after January 1, 1977). Comments received from municipal securities professionals indicate that the industry does not yet possess settlement or depository facilities which would expedite the clearance and settlement of municipal transactions to the levels contemplated in this provision of the Rule. The industry apparently has no structured system of transfer agents comparable to that existing for corporate securities. Delays occur in exchanging registered bonds for bearer bonds and in transferring registered bonds. Furthermore, municipals markets are not sufficiently liquid to allow an immediate buy-in at a reasonable price or borrowing of securities to cover fails to deliver. Brokers and dealers often have no alternative but to await delivery of fails.

The Commission recognizes that while the development of reliable and efficient

[12] *E.g.*, Letter from the National Association of Securities Dealers, Inc. to the Commission, March 5, 1973, at 7 & Attachment C; Letter from the Securities Industry Association to the Commission, March 6, 1973, at 9 & Exhibit B.

clearance and settlement systems is essential," it is inappropriate to establish, during their period of transition to financial regulation, a standard for municipals brokers and dealers which may be unrealistic. Accordingly, the Commission amends Rule 15c3-1(c)(2)(ix) [17 CFR 240.15c3-1(c)(2)(ix)] to provide that, for the period expiring June 1, 1976, municipal securities failed to deliver shall not be subjected to haircuts until the fail is outstanding twenty-five business days or longer.

Commission Action. Pursuant to sections 15(c)(3) and 23(a) of the Securities Exchange Act of 1934, the Securities and Exchange Commission amends § 240.15c3-1(c)(2)(ix) in Part 240 of Chapter II of Title 17 of the Code of Federal Regulations to read as follows:

* * * * *

(c) * * *

(2) * * *

(ix) Deducting from the contract value of each failed to deliver contract which is outstanding 11 business days or longer the percentages of the market value of the underlying security which would be required by application of the deduction required by paragraph (c)(2)(vi) or where appropriate, paragraph (f) of this section *Provided*, that such deduction shall be increased by any excess of the contract price of the fail to deliver over the market value of the underlying security or reduced by any excess of the market value of the fail but not to exceed the amount of such deduction. Provided, however, that until January 1, 1977 the deduction provided for herein shall be applied only to those fail to deliver contracts which are outstanding 15 business days or longer. Provided further, that until June 1, 1976 the deduction set forth herein shall be applied only to those fail to deliver contrac's in municipal securities which are outstanding 25 business days or longer.

TEMPORARY AMENDMENT TO RULE 15c3-1(c)(2)(xiii)—INDEBTEDNESS COLLATERALIZED BY EXEMPTED SECURITIES

Rule 15c3-1(c)(2)(xiii) [17 CFR 240.15c3-1(c)(2)(xiii)] provides that a broker or dealer, in lieu of including indebtedness secured by exempted securities in AI, may deduct 4% of such indebtedness from net worth, provided that the exempted securities are not carried long by the broker or dealer, and that the indebtedness does not represent contra securities failed to deliver. Since municipal securities lose their exempted status on December 1, 1975, this provision would no longer be available to a broker or dealer collateralizing its indebtedness with municipal securities.

Several comments received from the public averred that, because of the relatively inefficient clearance and settlement mechanisms existing with respect to municipal securities, the unavailability of the paragraph (c)(2)(xiii) [17 CFR 240.15c3-1(c)(2)(xiii)] option would work an undue hardship. If a broker or dealer carrying municipal securities failed to receive sold them to another broker or dealer, the fail to receive, so long as it were offset by a long position or a fail to deliver, would be excludable from AI pursuant to Rule 15c3-1(c)(1)(iii) [17 CFR 240.15c3-1(c)(1)(iii)]. However, once the securities were received and redelivered, draft against payment with immediate credit from a bank, the liability on the draft would be includable in AI. On the other hand, if the securities involved were exempted securities, the option afforded by paragraph (c)(2)(xiii) [17 CFR 240.15c3-1(c)(2)(xiii)] would be available for the liability on the draft. Commentators observed that transactions in municipal securities do not clear and settle efficiently, very often leaving brokers or dealers effecting municipal transactions in the predicament described above.

As noted earlier,[14] the Commission is of the view that the employment of efficient mechanisms for the clearance and settlement of municipal securities is essential. The Commission has also determined that it is necessary and appropriate to provide interim transitional relief with respect to subparagraph (c)(2)(xiii) [17 CFR 240.15c3-1(c)(2)(xiii)] until the municipals industry improves these procedures. It may well be appropriate after further public comment to continue this treatment permanently. Accordingly, the Commission amends Rule 15c3-1(c)(2)(xiii) [17 CFR 240.15c3-1(c)(2)(xiii)] to allow brokers and dealers to deduct from net worth, until June 1, 1976, 4% of their indebtedness collateralized by municipal securities.

Commission Action. Pursuant to sections 15(c)(3) and 23(a) of the Securities Exchange Act of 1934, the Securities and Exchange Commission amends § 240.15c3-1(c)(2)(xiii) in Part 240 of Chapter II of Title 17 of the Code of Federal Regulations to read as follows:

* * * * *

(c) * * *

(2) * * *

(xiii) Deducting, at the option of the broker or dealer, in lieu of including such amounts in aggregate indebtedness, 4 percent of the amount of any indebtedness secured by exempted securities or municipal securities not carried long in the proprietary or other accounts of the broker or dealer or representing exempted securities failed to deliver. Provided, with respect to indebtedness collateralized by municipal securities that, such option shall be available until June 1, 1976.

AMENDMENTS TO RULE 15c3-1(c)(6) AND (7) RULE 15c3-3(a)(1)—DEFINITIONS OF "CUSTOMER" AND "NON-CUSTOMER"

These amendments reflect the congressional decision to regulate dealer banks effecting transactions in municipal securities by extending to them the same definitional treatment accorded by Rule 15c3-1 [17 CFR 240.15c3-1] to other dealers. Accordingly, for purposes of the Rule, all registered municipal securities dealers would be treated as "non-customers." The term "municipal securities dealer" is intended to carry its statutory meaning as set forth in section 3(a)(30) of the Act. An important consequence of these amendments is that municipal securities transactions with registered dealer banks are no longer customer transactions for purposes of the Rule's "fail" provisions.

A parallel amendment to Rule 15c3-3(a)(1) [17 CFR 240.15c3-3(a)(1)], that rule's definition of "customer," will result in the exclusion of debits and credits arising out of transactions with registered municipal securities dealer banks from the Formula for the Determination of Reserve Requirements For Brokers and Dealers contained in Exhibit A to Rule 15c3-3 [17 CFR 240.15c3-3a], since only "customer debits" and "customer credits" are includable in the Reserve Formula.

Commission Action. Pursuant to sections 15(c)(3) and 23(a) of the Securities Exchange Act of 1934, the Securities and Exchange Commission amends § 240.15c3-1(c)(6), (7) in Part 240 of Chapter II of Title 17 of the Code of Federal Regulations to read as follows:

* * * * *

(c) * * *

(6) The term "customer" shall mean any person from whom, or on whose behalf, a broker or dealer has received, acquired or holds funds or securities for the account of such person, but shall not include a broker or dealer or a registered municipal securities dealer, or a general, special or limited partner or director or officer of the broker or dealer, or any person to the extent that such person has a claim for property or funds which by contract, agreement, or understanding, or by operation of law, is part of the capital of the broker or dealer. Provided, however, that the term "customer" shall also include a broker or dealer, but only insofar as such broker or dealer maintains a special omnibus account carried with another broker or dealer in compliance with 12 CFR 220.4(b) of Regulation T under the Securities Exchange Act of 1934.

(7) The term "non-customer" means a broker or dealer, registered municipal securities dealer, general partner, lim-

[13] Section 15(c)(6) of the Act authorizes the Commission to make rules, *inter alia*, with respect to the time and method of clearance and settlement of all securities except, *inter alia*, municipal securities. Section 15B(b)(2)(C) of the Act requires that the rules of the Municipal Securities Rulemaking Board, at a minimum, shall "be designed to * * * foster cooperation and coordination with persons engaged in regulating, clearing, [and] settling * * * transactions in municipal securities * * *" Section 17A(a) directs the Commission to establish a national system for the clearance and settlement of transactions in all securities except exempted securities, but not excepting municipal securities. Section 17A(b)(3)(F) requires that the rules of a clearing agency registered with the Commission shall be designed, at a minimum, to "promote the prompt and accurate clearance and settlement of securities transactions."

[14] *See* text accompanying note 13 *supra*.

ited partner, officer, director and persons to the extent their claims are subordinated to the claims of creditors of the broker or dealer.

* * * * *

Commission Action. Pursuant to sections 15(c)(3) and 23(a) of the Securities Exchange Act of 1934, the Securities and Exchange Commission amends § 240.15c3-3(a)(1) in Part 240 of Chapter II of Title 17 of the Code of Federal Regulations to read as follows:

* * * * *

(a) * * *

(1) The term "customer" shall mean any person from whom or on whose behalf a broker or dealer has received or acquired or holds funds or securities for the account of such person, but shall not include a broker or dealer, or a registered municipal securities dealer, or a general, special or limited partner or director or officer of a broker or dealer, or any person to the extent that such person has a claim for property or funds which by contract, agreement or understanding, or by operation of law, is part of the capital of the broker or dealer or is subordinated to the claims of creditors of the broker or dealer: *Provided, however*, That the term "customer" shall also include a broker or dealer but only insofar as such broker or dealer maintains a special omnibus account carried with another broker or dealer in compliance with Section 4(b) of Regulation T under the Securities Exchange Act of 1934 (12 CFR Part 220).

* * * * *

AMENDMENT TO RULE 15c3-1(c)—DEFINITION OF "MUNICIPAL SECURITIES"

This amendment will clarify the numerous references to "municipal securities" added to Rule 15c3-1 [17 CFR 240.15c3-1] by this release. A new subparagraph, Rule 15c3-1(c)(14) [17 CFR 240.15c3-1(c)(14)], provides that this term shall carry the meaning given to it by section 3(a)(29) of the Act.

Commission Action. Pursuant to sections 15(c)(3) and 23(a) of the Securities Exchange Act of 1934, the Securities and Exchange Commission adds a new paragraph (c)(14) to § 240.15c3-1 in Part 240 of Chapter II of Title 17 of the Code of Federal Regulations reading as follows:

* * * * *

(c) * * *

(14) The term "municipal securities" shall mean those securities included within the definition of "municipal securities" in section 3(a)(29) of the Securities Exchange Act of 1934.

TEMPORARY AMENDMENT TO RULE 15c3-1(f)(1)—ALTERNATIVE NET CAPITAL REQUIREMENT

The Senate Committee on Banking, Housing and Urban Affairs, while reporting favorably upon the bill which became the Securities Acts Amendments of 1975, declared, as quoted earlier in this release,[15] that "it may not be appropriate to apply the existing net capital rules to firms that are solely brokers in municipal securities, whose only customers are professional securities dealers and banks. The limited risks inherent in this form of business may justify less stringent rules without danger to the public." The Commission's analysis of comments received from the public tends to confirm this congressional judgment. These municipal securities brokers appear to restrict their business to the execution of agency transactions for other brokers, dealers, and bank municipal securities dealers, all of whom are themselves required to register with the Commission pursuant to sections 15 and 15B of the Act. These municipal securities brokers engage in no transactions with the investing public and do not invest for their own accounts. All their transactions are cleared through a bank or clearing service. In light of these facts, the Commission arrives at a conclusion similar to that of Congress, namely, that it may be unnecessary for the protection of investors to subject this special type of municipal securities broker to the same capital requirements applicable to other brokers and dealers. The Commission has determined that a minimum net capital requirement of $25,000 will provide a sufficient capital cushion to municipal securities brokers conducting their business in the restricted fashion described above.

Furthermore, the Commission is of the view that the alternative net capital requirement may be more suitable for this special class of brokers effecting transactions solely in municipal securities. While the Commission tends to regard new Rule 15c3-1(f)(1)(ii) [17 CFR 240.15c3-1(f)(1)(ii)] as the most appropriate response to the considerations raised by Congress and the public, it hereby solicits further public comment, especially by way of impact study, concerning the appropriate capital requirements for these municipal securities brokers. Accordingly, the Commission adopts Rules 15c3-1(f)(1)(ii) [17 CFR 240.15c3-1(f)(1)(ii)] as a temporary amendment, expiring June 1, 1976. Since these restricted municipal securities brokers deal only with entities not within the Rule 15c3-3(a)(1) [17 CFR 240.15c3(a)(1)] definition of "customer," as amended hereinabove, requirements under Rule 15c3-1(f)(1)(ii) [17 CFR 240.15c3-1(f)(1)(ii)] based on the Reserve Formula are not likely to increase significantly their minimum net capital requirements. However, the $25,000 requirement must be computed in accordance with all provisions of paragraph (f) [17 CFR 240.15c3-1(f)], including those incorporating certain of the adjustments to net capital required by subparagraph (c)(2) [17 CFR 240.15c 3-1(c)(2)] of the Rule.

Commission Action. Pursuant to sections 15(c)(3) and 23(a) of the Securities Exchange Act of 1934, the Securities and Exchange Commission redesignates § 240.15c3-1(f)(1) in Part 240 of Chapter II of Title 17 of the Code of Federal Regulations as § 240.15c3-1(f)(1)(i), and adopts a new § 240.15c3-1(f)(1)(ii) in Part 240 of Chapter II of Title 17 of the Code of Federal Regulations reading as follows:

* * * * *

(f) * * *

(1) * * *

(ii) In the case of a municipal securities broker, as defined in section 3(a)(31) of the Securities Exchange Act of 1934, who is not exempt from the provisions of § 240.15c3-3 under the Securities Exchange Act of 1934 pursuant to paragraph (k)(1) or (k)(2)(i), and who effects transactions only on a payment versus delivery basis with other brokers or dealers or municipal securities brokers or municipal securities dealers, and who does not hold funds or securities for, or owe money to, customers and does not otherwise carry accounts of, or for, customers, in order to qualify to operate under this paragraph (f) such municipal securities broker shall at all times, until June 1, 1976 maintain net capital equal to the greater of $25,000 or 4 percent of aggregate debit items computed in accordance with Exhibit A to Rule 15c3-3, § 240.15c3-3a. *Provided*, That in order to qualify to operate under this paragraph (f), such municipal securities broker shall notify the Examining Authority for such broker or dealer and the Regional Office of the Commission in which the broker or dealer has its principal place of business, in writing, of its election to operate under this provision. Once a municipal securities broker has determined to operate pursuant to this paragraph (f), he shall continue to do so unless a change in such election is approved upon application to the Commission.

INTERPRETATIONS WITH RESPECT TO THE NET CAPITAL REQUIREMENTS OF BROKERS AND DEALERS EFFECTING TRANSACTIONS IN MUNICIPAL SECURITIES

The Commission has determined to publish the following interpretations concerning the net capital requirements for brokers and dealers effecting transactions in municipal securities.

Rule 15c3-1(a)(1)—800 Percentum Requirement for New Registrants. Rule 15c3-1(a)(1) [17 CFR § 240.15c3-1(a)(1)] provides in part that no broker or dealer shall permit its aggregate indebtedness to exceed 800% of its net capital for twelve months following its commencing business as a broker or dealer. The Commission interprets this provision not to apply to brokers and dealers engaged solely in a municipal securities business for 12 months prior to their registration with the Commission.

Rule 15c3-1(c)(2)(iv)(C)—Profits Receivable From Underwriting Syndicates and Joint Underwriting Accounts. In connection with the Commission's amendments to Rule 15c3-1(c)(2)(iv)(C) [17 CFR 240.15c3-1(c)(2)(iv)(C)] concerning receivables from municipal securities underwriting syndicates and joint underwriting accounts, it is the Commission's position that such receiv-

[15] *See* note 4 *supra* and accompanying text.

ables shall be conservatively accrued, with adequate provision made for losses and other expenses.

Rule 15c3-1(c)(2)(iv)(B)—Free Shipments. Many comments from the public contended that the present limits on free shipments without capital charges, contained in Rule 15c3-1(c)(2)(iv)(B) [17 CFR 240.15c3-1(c)(2)(iv)(B)] were far less than what is considered to be a routine free shipment of municipal securities. These commentators apparently were unaware of a previous staff position, reaffirmed here, that a shipment by mail of securities to a bank which serves as the seller's agent for the collection of proceeds is not a "free shipment" for purposes of the Rule.

Rule 15c3-1(c)(2)(vi)(K)—Securities With a Limited Market. In view of the confusion evidenced in many public comments addressed to this provision, the Commission wishes to clarify that Rule 15c3-1(c)(2)(vi)(K) [17 CFR 240.15c3-1(c)(2)(vi)(K)] operates, in the case of securities with a limited market, to magnify the haircut prescribed in Rule 15c3-1(c)(2)(vi)(J) [17 CFR 240.15c3-1(c)(2)(vi)(J) for "all other securiites," and does not apply to securities, including munipical securities, receiving haircuts pursuant to Rule 15c3-1(c)(2)(vi)(A)-(I) [17 CFR 240.15c3-1(c)(2)(vi)(A)-(I)]. It should be noted that Rule 15c3-1(c)(2)(vi)(L) [17 CFR 240.15c3-1(c)(2)(vi)(L)] applies to a given security only if Rule 15c3-1(c)(2)(vi)(K) [17 CFR 240.15c3-1(c)(2)(vi)(K)] applies, and therefore also does not apply beyond "all other securities" treated in Rule 15c3-1(c)(2)(vi)(J) [17 CFR 240.15c3-1(c)(2)(iv)(J)].

Rule 15c3-1(c)(2)(vii)—Nonmarketable Securities. Rule 15c3-1(c)(2)(vii) [17 CFR 240.15c3-1(c)(2)(vii)] provides that, for purposes of computing net capital, a 100% deduction from net worth shall be taken against the carrying value of securities in the proprietary or other accounts of a broker or dealer for which there is no ready market. In turn, Rule 15c3-1(c)(11)(i) [17 CFR 240.15c3-1(c)(11)(i)] provides in part that a ready market is deemed to exist when there exists a recognized established market comprising independent bona fide offers to buy and sell, so that a price reasonably related to the last sale, or current bid and offer quotations, can be determined almost instantaneously. Pursuant to Rule 15c3-1(c)(11)(ii) [17 CFR 240.15c3-1(c)(11)(ii)], a ready market is also deemed to exist when securities have been accepted as collateral for a loan which the broker or dealer demonstrates to its Examining Authority is adequately secured.

The application of these provisions to the municipal securities industry was the subject of much public comment. It was pointed out that municipals, which generally are issued at a denomination of at least $1,000, provide a lesser number of trading units than corporate equities. The problem, the comments noted, is further complicated by the existence of a great number of different issues often involving relatively few trading units, which are issued by thousands of small municipalities, school districts, and the like. Unlike the bid-ask market in corporate bonds, the municipals market is a so-called "work-out" market, containing too many issues with too many different maturities for a continuous two-sided market to be maintained.

Furthermore, present pricing practices in the municipals markets are complex and time consuming, involving a matrix system of credit ratings and time to maturity, evaluated by individual traders in light of general market conditions. This system often does not result in the "almost instantaneous" quotation or continuous market contemplated in the Rule. In short, the present structure of the municipals marketplace does not resemble the corporate securities markets on which the marketability provisions of the Rule were premised.

In this release, the Commission requests public comments and an impact study concerning the question of what constitutes a ready market for municipal securities, so that appropriate marketability criteria for municipal securities can be built into the Rule. In the interim, pending the forthcoming development of such criteria, the Commission by interpretation suspends Rule 15c3-1(c)(2)(vii) [17 CFR 240.15c3-1(c)(2)(vii)] as applied to municipal securities not traded flat or in default as to principal or interest.

Interpretations With Respect to Other Rules Establishing a Financial Responsibility and Reporting Program for Brokers and Dealers Effecting Transactions in Municipal Securities

The Commission has determined to publish the following interpretations concerning the financial responsibility and reporting requirements for brokers and dealers effecting transactions in municipal securities.

Rule 15c2-1—Hypothecation of Customers' Securities. Rule 15c2-1 [17 CFR 240.15c2-1] defines the term "fraudulent, deceptive, or manipulative act or practice" as used in section 15(c)(2) of the Act to include a broker's or dealer's hypothecation of securities carried for the account of customers, as defined, under circumstances permitting (1) the commingling of securities carried for the account of different customers without consent, (2) the commingling of securities carried for the account of customers with noncustomer securities held by the broker or dealer pursuant to a lien, or (3) the hypothecation of customer securities to secure loans exceeding the aggregate indebtedness of all customers in respect of securities carried for their accounts.[16] The Commission deems it necessary and appropriate to suspend this rule in order to afford brokers and dealers effecting transactions solely in municipal securities a brief transitional period during which they can make necessary adjustments to their hypothecation practices. Accordingly, the Commission by interpretation suspends Rule 15c2-1 [17 CFR 240.15c2-1], as applied to brokers and dealers effecting transactions solely in municipal securities, until January 15, 1976.

Rule 15c3-2—Customers' Free Credit Balances. Rule 15c3-2 [17 CFR 240.15c3-2] stipulates that a broker or dealer may not use, in the operation of his business, free credit balances arising out of customer accounts until such broker or dealer, in general, has developed adequate procedures for informing his customers of his intent to do so. The procedures established must ensure that whenever, at least every three months, the broker or dealer sends a customer a statement of his account, he shall include therewith written notice that (a) the customer's free credit balance is not segregated and may be used in the broker's or dealer's operations, and (b) that the free credit balance is payable on demand.

The Commission recognizes that procedures such as these presently do not exist in the municipal securities industry and, therefore, a brief transitional period may be appropriate during which time brokers and dealers effecting transactions solely in municipal securities can study and implement Rule 15c3-2 [17 CFR 240.15c3-2]. Accordingly, the Commission suspends Rule 15c3-2 [17 CFR 240.15c3-2], as applied to brokers and dealers effecting transactions solely in municipal securities, until January 15, 1976.

Rule 15c3-3(d)—Requirement to Reduce Securities to Possession or Control. Rule 15c3-3(d) [17 CFR 240.15c3-3(d)] requires brokers and dealers to determine, not later than the close of the next business day, the quantities of customers' fully paid and excess margin securities in their possession or control as of the preceding business day. A similar determination is required with respect to these fully paid and excess margin securities not in the broker's or dealer's possession or control. With respect to those fully paid securities or excess margin securities determined not to be in his possession or control, Rule 15c3-3(d) [17 CFR 240.15c3-3(d)] requires that the broker or dealer rectify the situation by taking prompt steps to secure possession or control of such securities, to the extent they are in certain specified noncontrol locations. Brokers and dealers currently subject to the rule have achieved compliance either by taking appropriate steps to reduce securities to their possession or control, or by obtaining extensions pursuant to Rule 15c3-3(n) [17 CFR 240.15c3-3(n)].

Commentators have asserted that clearance and settlement mechanisms in municipal securities are inefficient and impede the reduction to possession or control of fully paid and excess margin municipal securities, particularly where a "buy-in" is required. Therefore, the Commission finds it necessary and appropriate to provide brokers and dealers effecting transactions solely in municipal securities with a transitional period dur-

[16] A related provision, Rule 8c-1 [17 CFR 240.8c-1], applies only to hypothecation of listed securities. Rule 8c-1 is under review in light of the 1975 Act's amendments to section 8 of the Act.

ing which these brokers and dealers can adjust their practices in order to comply with this provision. Accordingly, the Commission suspends Rule 15c3–3(d) [17 CFR 240.15c3–3(d)], as applied to brokers and dealers effecting transactions solely in municipal securities, until January 15, 1976. The Commission believes that it may be appropriate for the Municipal Securities Rulemaking Board to consider possible solutions to this problem, particularly insofar as buy-in requirements are involved.

Rule 15c3–3(m)—Requirement to Complete Orders on Behalf of Customers. Another consequence of the present structure of the municipals marketplace is the great difficulty experienced in attempting to execute timely "buy-in" pursuant to the provisions of Rule 15c3–3(m) [17 CFR 240.15c3–3(m)]. The Commission had previously suspended by interpretation this provision as applied to municipal securities,[11] and the Commission reaffirms that determination and hereby takes the position that this suspension should continue until suitable buy-in requirements for municipal securities can be devised. The Commission believes that it may be appropriate for the Municipal Securities Rulemaking Board to consider possible solutions to this problem.

Rule 17a–3—Books and Records to be Maintained by Brokers and Dealers. Rule 17a–3 [17 CFR 240.17a–3] essentially requires that registered brokers and dealers shall make and keep current certain specific books and records relating to their business. The Commission is aware that the present bookkeeping and recordkeeping systems of brokers and dealers effecting transactions solely in municipal securities may presently constitute records which are not as comprehensive as those required in Rule 17a–3 [17 CFR 240.17a–3]. Furthermore, the Commission recognizes that those brokers and dealers may be largely unfamiliar with the requirements of this rule and, to the extent that their systems would have to be modified, they might experience great difficulty in digesting and implementing all of the rule's provisions by December 1, 1975. Therefore, the Commission finds it necessary and appropriate to provide a brief transitional period during which brokers and dealers effecting transactions solely in municipal securities can both educate themselves concerning the requirements of Rule 17a–3 [17 CFR 240.17a–3], and make those adjustments in their bookkeeping and recordkeeping systems dictated by the rule's provisions.

Accordingly, the Commission encourages all brokers and dealers effecting transactions solely in municipal securities to contact the local NASD district office or the appropriate Commission regional office, in regard to any questions or problems concerning Rule 17a–3 [17 CFR 240.17a–3]. The NASD or the Commission will be available to assist these brokers and dealers in complying with Rule 17a–3 [17 CFR 240.17a–3]. In addition, for the period beginning December 1, 1975 and expiring January 15, 1976, Rule 17a–3 [17 CFR 240.17a–3] is interpreted to require brokers and dealers effecting transactions solely in municipal securities to make and keep current books and records sufficient to demonstrate their financial condition, to reflect the receipt and delivery of all funds and securities, and to reflect all customer activity.

During this transitional period, the Commission intends to consult and coordinate with the Municipal Securities Rulemaking Board concerning appropriate books and records requirements for brokers and dealers engaging in transactions in municipal securities.

Rule 17a–4—Preservation of Books and Records. Rule 17a–4 [17 CFR 240.17a–4] requires the preservation for specified lengths of time of the books and records maintained pursuant to Rule 17a–3 [17 CFR 240.17a–3], as well as other documents enumerated in Rule 17a–4(b), (c) and (d) [17 CFR 240.17a–4(b), (c), (d)]. For the reasons underlying the Commission's interpretation of Rule 17a–3 [17 CFR 240.17a–3], *supra*, the Commission interprets Rule 17a–4 [17 CFR 240.17a–4], until January 15, 1976, to require brokers and dealers effecting transactions solely in municipal securities to preserve in an easily accessible place those books and records maintained pursuant to Rule 17a–3 [17 CFR 240.17a–3] as interpreted herein and such other business records required to be preserved by Rule 17a–4 [17 CFR 240.17a–4].[18]

Rule 17a–5(a)—Annual Report on Form X–17A–5. Rule 17a–5(a)(2)(i)(a) [17 CFR 240.17a–5(a)(2)(i)(a)] requires brokers and dealers to file a report of financial condition on Form X–17A–5 [17 CFR 249.617] between one and five months after their registration becomes effective.[19]

The Commission recognizes that brokers and dealers effecting transactions solely in municipal securities have been operating under established fiscal years. The Commission believes it necessary and appropriate, during the period of transition and adjustment to regulation, to avoid the disruptions which might result from the application of this provision. Accordingly, with respect to those brokers and dealers effecting transactions solely in municipal securities, the Commission suspends Rule 17a–5(a)(2)(i)(a) [17 CFR 240.17a–5(a)(2)(i)(a)]. The Commission notes, however, that these brokers and dealers remain subject to all other provisions of Rule 17a–5 [17 CFR 240.17a–5], including those requiring that a certified audit be filed during calendar year 1976.

Rule 17a–5 (m) and (n)—Statements to be Furnished Customers. These provisions of Rule 17a–5 require brokers and dealers, with certain exceptions, to furnish their customers at specified intervals with data relating to their financial condition, including an unconsolidated balance sheet, a statement of the firm's net capital, and unaudited financial statements. The Commission believes it appropriate that brokers and dealers effecting transactions solely in municipal securities should be afforded a brief transitional period in which to implement these provisions. Accordingly, the Commission by interpretation suspends Rule 17a–5 (m) and (n) [17 CFR 240.17a–5 (m) and (n)] as applied to brokers and dealers effecting transactions solely in municipal securities, until June 1, 1976. However, those firms to whom this interpretation applies shall transmit statements required by Rule 17a–5(n) [17 CFR 240.17a–5(n)] to customers as of a date not later than July 1, 1976.

Rule 17a–10—Report of Income and Expenses. Rule 17a–10 [17 CFR 240.17a–10] requires brokers and dealers to file a report of each calendar year's income and expenses, as well as related information, on Form X–17A–10 [17 CFR 249.618], not later than 180 days after the close of each calendar year.

Since brokers and dealers effecting transactions solely in municipal securities are not required by statute to register with the Commission until relatively late in calendar year 1975, their 1975 filing would not add significant data for calendar year 1975. The burden imposed upon these new registrants by the requirements of Rule 17a–10 [17 CFR 240.17a–10] is, in the opinion of the Commission, inappropriate in light of the limited furtherance of this rule's purposes which would be derived from such filings. Accordingly, the Commission, by interpretation, suspends Rule 17a–10 [17 CFR 240.17a–10] as applied to brokers and dealers effecting transactions solely in municipal securities until January 15, 1976. The Commission notes that this interpretation dispenses with the necessity of a Form X–17A–10 [17 CFR 249.618] filing with respect to calendar year 1975.

Rule 17a–11(c)—Supplemental Financial Reporting Requirements. Rule 17a–11 [17 CFR 240.17a–11] requires brokers or dealers in violation of the net capital rule to which they are subject to file, at specified times and intervals, a telegraphic notice and subsequent follow-up reports containing certain financial and operational data. Rule 17a–11(c) [17 CFR 240.17a–11(c)] further requires brokers or dealers whose books and records do not conform to the standards of Rule 17a–3 [17 CFR 240.17a–3] to transmit to the Commission telegraphic notice of such fact and to take corrective measures within forty-eight hours after tranmittal of such notice.

[11] Securities Exchange Act Release No. 10093 (Apr. 10, 1973), 38 FR 12103 (May 9, 1973).

[18] The Commission calls attention to the proposed amendments to Rules 17a–4, 17a–5, 17a–10, and 17a–20 [17 CFR 240.17a–4, –5, –10, –20] reflecting the proposed adoption of the Focus Report, a program to streamline the financial and operational reporting of brokers and dealers. See Securities Exchange Act Release No. 11748 (Oct. 16, 1975), 40 FR 51060 (Nov. 3, 1975).

[19] Proposals to amend Rule 17a–5 [17 CFR 240.17a–5], in connection with the projected adoption of the Focus Report, would eliminate this requirement. *See* note 18 *supra*.

Rule 17a–11 [17 CFR 240.17a–11] lies at the core of the Commission's program for receiving "early warning" of a broker's or dealer's financial difficulties. The important public policy underlying this rule mandates only limited transitional modifications for new registrants. Accordingly, as applied to those brokers and dealers effecting transactions solely in municipal securities, the Commission interprets Rule 17a–11(c) [17 CFR 240.17a–11(c)] to apply, until January 15, 1976, to violations by such brokers and dealers of Rule 17a–3 [17 CFR 240.17a–3] as interpreted hereinabove. In all other respects, however, such brokers and dealers remain subject to Rule 17a–11 [17 CFR 240.17a–11].

Rule 17a–13—Quarterly Security Counts. Rule 17a–13 [17 CFR 240.17a–13] requires all brokers and dealers, with certain limited exceptions, physically to count all securities held in possession, to account for all securities in the broker's or dealer's control but not in his possession, and to account for all securities which are not in the broker's or dealer's possession or control. Other provisions of the rule specify when and how the results of this security count must be recorded on the books and records of the broker or dealer. The rule requires that such security counts be made at least once every fiscal or calendar quarter.

The Commission is aware that the municipal securities industry has never been required by regulation to make frequent security counts. Brokers and dealers effecting transactions solely in municipal securitis will require a brief transitional period in which to adjust to the procedures required by Rule 17a–13 [17 CFR 240.17a–13]. Accordingly, the Commission by interpretation suspends Rule 17a–13 [17 CFR 240.17a–13], as applied to brokers and dealers effecting transactions solely in municipal securities, until January 15, 1976. The Commission notes that this will delay the first such count under Rule 17a–13 [17 CFR 240.17a–13] to the first fiscal or calendar quarter of 1976.

Effective Date. The Commission finds, in accordance with the provisions of the Administrative Procedure Act, 5 U.S.C. 553(b)(3)(B), (d)(3) (1970), that notice and public comment procedure respecting these amendments and temporary amendments to Rule 15c3–1 [17 CFR 240.15c3–1] and Rule 15c3–3 [17 CFR 240.15c3–3] would be impractical and contrary to the public interest, and finds further that the public interest requires that these amendments and temporary amendments become effective less than 30 days from the publication of this release, on December 1, 1975. These findings are based on the Commission's determination that the maintenance of orderly markets in municipal securities requires immediate publication and an effective date of these amendments and temporary amendments of December 1, 1975.

Statutory Basis and Competitive Considerations. These amendments and temporary amendments to Rule 15c3–1 [17 CFR 240.15c3–1] and Rule 15c3–3 [17 CFR 240.15c3–3] are adopted pursuant to the Securities Exchange Act of 1934, and particularly sections 10(b), 15(c)(3), 17(a) and 23(a) thereof. The Commission has determined that these amendments and temporary amendments impose no burden on competition not necessary or appropriate in furtherance of the purposes of the Act, and that the amendments and temporary amendments are necessary and appropriate to implement the provisions of the Act, and particularly section 15(c)(3) thereof, to provide for the orderly assumption by the Commission of financial responsibility regulation of all brokers and dealers.

Solicitation of Public Comment. Although the Commission finds, pursuant to the Administrative Procedure Act, that the public interest requires that these amendments and temporary amendments be adopted, effective December 1, 1975, without notice and further public comment, the Commission welcomes the views of the public on these amendments, temporary amendments, and interpretations expressed *in writing* prior to their effective date and, thereafter, until February 29, 1976 in order to assist the Commission in its task of initiating regulation of brokers and dealers effecting transactions in municipal securities particularly with respect to their financial responsibility.

Moreover, the Commission again solicits public comment from interested persons concerning the appropriate capital requirements for brokers and dealers effecting transactions in municipal securities. In particular, the Commission requests public comments, including impact studies and other appropriate statistical compilations, concerning those areas treated by the temporary amendments adopted herein, which will enable the Commission to consider and develop appropriate capital standards for brokers and dealers engaging in municipal securities transactions. In this regard, the Commission emphasizes the importance of public comment and impact studies germane to the issues of what constitutes an undue concentration of municipal securities for purposes of subparagraphs (c)(2)(vi)(M) [17 CFR 240.15c3–1(c)(2)(vi)(M)] and (f)(3)(iii) [17 CFR 240.15c3–1(f)(3)(iii)] of the Rule, the contours of a ready market in municipal securities, for purposes of subparagraphs (c)(2)(vii) [17 CFR 240.15c 3–1(c)(2)(vii)], (c)(5) [17 CFR 240.-15c3–1(c)(5)] and (c)(11) [17 CFR 240.15c3–1(c)(11)] of the Rule, and the appropriate haircuts on municipal bonds under subparagraph (c)(2)(vi)(B)(2) [17 CFR 240.15c3–1(c)(2)(vi)(B)(2)] of the Rule.

The Commission further invites the comments of all interested persons and self-regulatory organizations, including the Municipal Securities Rulemaking Board, concerning the appropriate financial responsibility and reporting requirements for brokers and dealers effecting transactions in municipal securities.

Interested persons are invited to submit their views to George A. Fitzsimmons, Secretary, Securities and Exchange Commission, 500 North Capitol Street, Washington, D.C. 20549, no later than February 29, 1976. Reference should be made to File No. S7–603. All comments received will be subject to public inspection.

By the Commission.

[SEAL] GEORGE A. FITZSIMMONS,
Secretary.

NOVEMBER 20, 1975.

[FR Doc.75–33553 Filed 12–11–75;8:45 am]

[Release No. IA–487]

PART 275—RULES AND REGULATIONS, INVESTMENT ADVISERS ACT OF 1940

Application for Registration of Investment Advisers and Withdrawal From Registration, Technical Rule Changes

The Securities and Exchange Commission has amended Rule 203–1 (17 CFR 275.203–1) under the Investment Advisers Act of 1940 (15 U.S.C. 80b–1 et seq.) ("Act") to delete an unnecessary statutory reference to former section 203(f) (15 U.S.C. 80b–3(f)),[1] and has amended Rule 203–2 (17 CFR 275.203–2) under the Act to correct certain references to former section 203(i) (15 U.S.C. 80b–3(i)) of the Act.

Rule 203–1(a) under the Act provides:

> An application for registration of an investment adviser filed pursuant to section 203(c) or 203(f) of the Act shall be filed on Form ADV in accordance with the instructions contained therein.

Former section 203(f), now section 203(g) (15 U.S.C. 80b–3(g)), in effect permits a successor to a registered investment adviser to continue its investment advisory business if it files an application for registration within thirty days of the succession.[2] However, an application for registration, whether by a successor or otherwise, is filed pursuant to the provisions of section 203(c) (15 U.S.C. 80b–3(c)). Therefore, a reference to section 203(g) in paragraph (a) of Rule 203–1 is unnecessary.

The Securities Acts Amendments of 1975 (Pub. L. 94–29) contained amendments to the Act which, among other things, redesignated former section 203(i) as section 203(h) (15 U.S.C. 80b–3(h)). Therefore, the references in paragraphs (a) and (b) of Rule 203–2 to section 203(i) should be changed to section 203(h) to reflect the redesignation.

---

[1] Pursuant to the Investment Company Amendments Act of 1970 (Pub. L. 91–547) section 203(f) was redesignated 203(h) and was subsequently redesignated 203(g) by the Securities Acts Amendments of 1975.

[2] Section 203(g) provides: "Any successor to the business of an investment adviser registered under this section shall be deemed likewise registered hereunder, if within thirty days from its succession to such business it shall file an application for registration under this section, unless and until the Commission, pursuant to subsection (d) of this section, shall deny registration to or revoke or suspend the registration of such successor."