

**CUSTOMER PROTECTION – RESERVES AND CUSTODY OF SECURITIES**  
**SEA Rule 15c3-3**

(a) **DEFINITIONS**

For the purpose of this section:

(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 that person. The term shall not include a broker or dealer, a municipal securities dealer, or a government securities broker or government securities dealer. The term shall, however, include another broker or dealer to the extent that broker or dealer maintains an omnibus account for the account of customers with the broker or dealer in compliance with Regulation T (12 CFR 220.1 through 220.12). The term shall not include a general partner or director or principal officer of the broker or dealer or any other person to the extent that 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. In addition, the term shall not include a person to the extent that the person has a claim for security futures products held in a futures account, or any security futures product and any futures product held in a “proprietary account” as defined by the Commodity Futures Trading Commission in § 1.3(y) of this chapter. The term also shall not include a counterparty who has delivered collateral to an OTC derivatives dealer pursuant to a transaction in an eligible OTC derivative instrument, or pursuant to the OTC derivatives dealer’s cash management securities activities or ancillary portfolio management securities activities, and who has received a prominent written notice from the OTC derivatives dealer that:

(i) Except as otherwise agreed in writing by the OTC derivatives dealer and the counterparty, the dealer may repledge or otherwise use the collateral in its business;

(ii) In the event of the OTC derivatives dealer’s failure, the counterparty will likely be considered an unsecured creditor of the dealer as to that collateral;

(iii) The Securities Investor Protection Act of 1970 (15 U.S.C. 78aaa et seq.) (SIPA) does not protect the counterparty; and

(iv) The collateral will not be subject to the requirements of § 240.8c-1, § 240.15c2-1, § 240.15c3-2, or § 240.15c3-3.

SEA Rule 15c3-3(a)(1)(iv)

(a)(1) DEFINITIONS; CUSTOMER (continued)/01 Customer/Non-Customer Classification

Certain accounts shown on the books of the broker-dealer shall be classified as “customer” or “non-customer” as follows:

Customer

- Any person or entity from whom or on whose behalf the reporting broker-dealer has received or acquired or holds funds or securities except those specifically excluded as “non-customers”;
- Special and limited partners’ non-capital and non-subordinated accounts;
- Accounts of officers, other than principal officers, or directors. (The president, executive vice president, treasurer, secretary or any person performing a similar function are principal officers.);
- Non-subordinated accounts of subordinated lenders, other than general partners’, directors’ and principal officers’ (see interpretation 15c3-3(a)(1)/02);
- A broker or dealer that maintains an omnibus account with the reporting broker-dealer for the account of customers in compliance with Regulation T;
- A broker-dealer to the extent it maintains an account designated as “Special Custody Account for the Exclusive Benefit of Customers of (name of broker-dealer)” which meets the criteria described in interpretation 15c3-3(c)(7)/01;
- A broker-dealer to the extent it maintains an account designated as “Special Custody Account for Accommodation Transfers for the Exclusive Benefit of Customers of (name of broker-dealer)” which meets the criteria described in interpretation 15c3-3(c)(7)/02;
- A joint account, custodian account, participation in a hedge fund or limited partnership or similar type accounts or arrangements between a customer and a non-customer;
- A non broker-dealer affiliate or subsidiary of the reporting broker-dealer;
- The other participant(s)’ interest in a joint trading and investment account carried on the books of the reporting broker-dealer, and the other participant(s)’ interest in a Joint Foreign and Domestic Arbitrage Account when such other participant(s) is a “customer”;
- Non-proprietary accounts of a foreign bank; and
- Non-proprietary accounts of a foreign broker-dealer.

SEA Rule 15c3-3(a)(1)/01

(a)(1) DEFINITIONS; CUSTOMER (continued)/01 Customer/Non-Customer Classification (continued)Non-Customer

- General partner;
- Director or principal officer, i.e., president, executive vice president, treasurer, secretary or any person performing a similar function;
- A broker or dealer (other than omnibus accounts);
- A non-bank registered municipal securities dealer;
- A bank municipal securities dealer that either does or does not transact its municipal securities business through a separately identified department or division, and either does or does not register as an undivided entity is a non-customer only with respect to its transactions effected in the capacity of a municipal securities dealer. All other transactions shall be treated as customer transactions;
- A foreign bank which engages in the business of buying and selling securities for its own account through a broker or otherwise within the meaning of Section 3(a)(5) of the Act (i.e., dealer), provided the foreign bank must not fall within the definition of “bank” set forth in Section 3(a)(6) of the Act (see interpretation 15c3-3(a)(1)/032). If the foreign bank falls within the definition of a bank, it is to be treated as a customer;
- The other participant(s)’ interest in a joint trading and investment account carried on the books of the reporting broker-dealer and the other participant(s)’ interest in a Joint Foreign and Domestic Arbitrage Account when such other participant(s) is a non-customer;
- The Federal Reserve Bank in instances where securities are being borrowed from it for the purpose of cleaning up fails; and
- The proprietary account of a foreign broker-dealer would be treated as a non-customer.

(a)(1) DEFINITIONS; CUSTOMER (continued)/01 Customer/Non-Customer Classification (continued)

Note: Pursuant to SEA Rule 15c3-3(a)(16), adopted under SEA Release No.70072 (July 30, 2013), certain previous classifications under “non-customer” are now defined as “PAB account.” However, for purposes of the customer reserve formula computation under SEA Rule 15c3-3(Exhibit A) and the interpretations thereunder, references to “non-customer” will continue to include accounts which are defined as PAB accounts.

(SEC Releases 34-9922, January 2, 1973; 34-10429, October 12, 1973;

34-11854, November 20, 1975; 34-11969, January 2, 1976)

(SEC Letter to NASD, July 15, 1974) (SEC Staff to NYSE) (No. 78-1, May 1978)

(SEC Staff to NYSE) (No. 01-05, August 2001)

(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

(a)(1) DEFINITIONS; CUSTOMER (continued)/011 Introduced Accounts of General Partners, Director or Principal Officers of Another Broker-Dealer

The individual securities accounts of another broker-dealer's general partners directors or principal officers that are introduced on a fully disclosed basis are "customers" of the carrying broker-dealer.

In the event the account is that of an individually registered broker-dealer or of an individual who has a relationship with the carrying broker-dealer other than that of a client-customer, the account is a "non-customer" of the carrying broker-dealer.

(SEC Staff to NYSE) (No. 89-7, June 1989)

/012 Proprietary Accounts of Foreign Broker-Dealer – Rescinded (FINRA Regulatory Notice 15-25)/013 Limited Liability Company/Limited Liability Corporation (LLC)

Any participant in a broker-dealer which is organized as a LLC, who performs a function similar to that of a general partner, director, or principal officer of a broker-dealer, such as a member of the board of managers of a LLC, would be considered a non-customer for the purpose of SEA Rule 15c3-3. Any other participant would be considered a customer.

(SEC Staff to NYSE) (No. 02-3, February 2002)

/02 Non-Conforming Subordination Agreements Covering Securities

The SEC would consider subordinated lenders of securities who enter into subordination agreements which are not recognized for purposes of providing net capital under SEA Rule 15c3-1, as non-customers who would not be subject to the possession or control requirements of the Rule. Such lenders would have to be informed of the absence of SIPC protection and a no action letter would have to be requested of the SEC on a case by case basis.

(SEC Letter to Arnhold & S. Bleichroeder, Inc., June 28, 1974) (No. 78-1, May 1978)

(a)(1) DEFINITIONS; CUSTOMER (continued)/021 Non-Conforming Subordination Agreements for Customer Account Exclusion

A securities account of a non-broker-dealer affiliated entity shall not be considered a “customer,” as that term is defined in paragraph (a)(1) of Rule 15c3-3, provided the following conditions are met:

1. A written non-conforming subordination agreement exists between the broker-dealer carrying the account (the “Carrying Broker-Dealer”) and the entity subordinating the account (the “Subordinating Entity”), which subordinates claims for cash and securities in the account to the claims of all customers of the Carrying Broker-Dealer;
2. The non-conforming subordination agreement is signed by a duly authorized officer of the Carrying Broker-Dealer and the Subordinating Entity;
3. The non-conforming subordination agreement includes representations by the Subordinating Entity that the account: (i) does not give rise to a customer claim under the Securities Investor Protection Act of 1970 (“SIPA”) or the U.S. Bankruptcy Code; and (ii) does not contain assets of any person other than the Subordinating Entity;
4. The Subordinating Entity obtains a written opinion of outside counsel that it is legally authorized to make the subordination in the non-conforming subordination agreement; and
5. The non-conforming subordination agreement has been approved by the broker-dealer’s Designated Examining Authority (“DEA”).

Note: Under SIPA, customers are a class of creditor. By subordinating to all customers, the subordinating entity is subordinating to the “any” portion of “any or all creditors” in the exclusion from the term “customer” set forth in the SIPA definition under 15 U.S.C. §7811(2) and therefore does not have a customer claim in a SIPA proceeding.

Note: Any non-conforming subordination agreements that have been previously approved by the DEA, shall not be subject to the provisions of this revised interpretation.

(SEC Staff to NYSE) (No. 96-3, April 1996) (No. 97-6, October 1997)  
(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

(a)(1) DEFINITIONS; CUSTOMER (continued)

/022 Non-Conforming Subordination Agreements for PAB Account Exclusion

See interpretation 15c3-3(a)(16)/01.

(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

/03 Customer/Non-Customer Foreign Banks – (Rescinded, August 2001)

/031 Customer/Non-Customer Foreign Banks – (Rescinded, August 2001)

(a)(1) DEFINITIONS; CUSTOMER (continued)/032 Foreign Banks - Customer and Non-Customer Classification

Transactions recorded in non-proprietary accounts of a foreign bank would be treated as a customer for purposes of SEA Rule 15c3-3.

Foreign banks may establish a separate “proprietary” account which may be treated as a broker-dealer if the account is clearly labeled as such and a written agreement is obtained in which the foreign bank acknowledges that all transactions in the account are proprietary transactions of the foreign bank acting in a dealer capacity. This account is treated as a non-customer for purposes of the customer reserve formula computation and as a PAB account for purposes of the PAB reserve formula computation, provided that the foreign bank does not fall within the definition of “bank” set forth in Section 3(a)(6) of the '34 Act, which provides as follows:

“The term “bank” means (A) a banking institution organized under the laws of the United States, (B) a member bank of the Federal Reserve System, (C) any other banking institution, whether incorporated or not, doing business under the laws of any State or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising a fiduciary power similar to those permitted to national banks under Section 11(k) of the Federal Reserve Act, as amended, and which is supervised and examined by State or Federal authority having supervision over banks, and which is not operated for the purpose of evading the provisions of this title, and (D) a receiver, conservator, or other liquidating agent of any institution or firm included in clauses (A), (B) or (C) of this paragraph.”

If the foreign bank falls within the above definition of a bank, it would be treated as a customer for purposes of SEA Rule 15c3-3.

Note: There are at least three forms of foreign banking operations that a broker-dealer may be doing business with (1) representative offices; (2) agencies; and (3) branches. Agencies and branches are subject to certain reporting requirements of the Federal Reserve Board and some states have specific regulations concerning foreign bank entry and operation, including examination and supervision and may be required to be treated as customers. Representative offices generally do not conduct normal banking operations but merely act as liaison offices between the head office and its customers. Generally speaking, there are no state regulations as to examination and supervision of representative offices other than simple registration with the state in which business is being conducted. Representative offices may be eligible for treatment as a non-customer.

(SEC Letter to UBS-DB Corporation, March 5, 1977)  
(SEC Staff to NYSE) (No. 78-2, May 1978) (No. 01-05, August 2001)  
(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

SEA Rule 15c3-3(a)(1)/032



(a)(1) DEFINITIONS; CUSTOMER (continued)/033 Foreign Broker-Dealers - Customer and Non-Customer Classification

Transactions recorded in the proprietary account of a foreign broker-dealer would be treated as a non-customer for purposes of the customer reserve formula computation and as a PAB account for purposes of the PAB reserve formula computation.

Transactions recorded in non-proprietary accounts of a foreign broker-dealer would be treated as a customer for purposes of SEA Rule 15c3-3.

(SEC Staff to NYSE) (No. 01-05, August 2001)  
(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

/04 Customer/Non-Customer - Differing Definition at SEA Rules 8c-1 and 15c3-3

SEA Rules 8c-1 and 15c2-1 concerning Hypothecation of Customers' Securities define the term "customer", for purposes of those rules, to be everyone except a general or special partner, a director or officer of the broker-dealer or a participant in a joint, group or syndicate account with the broker-dealer or with any partner, officer or director of the broker-dealer.

Broker-dealers should note the requirements of SEA Rules 8c-1 and 15c2-1; the difference in the definition of "customer" from that shown in SEA Rule 15c3-3, and note in particular the requirement at subparagraph (a)(3) which prohibits securities carried for the account of customers from being hypothecated or subjected to any lien or liens of pledgees for an amount in excess of the aggregate indebtedness (as that term is used in SEA Rules 8c-1 and 15c2-1) of all customers.

Other broker-dealers' accounts are "customer" accounts under SEA Rules 8c-1 and 15c2-1 and are "non-customer" accounts under SEA Rule 15c3-3.

(SEC Release No. 2690, November 15, 1940) (No. 88-1, February 1988)

(a)(1) DEFINITIONS; CUSTOMER (continued)/05 Customer/Non-Customer - Prime Broker

A customer in a prime broker relationship is to be treated as a customer, for SEA Rule 15c3-3 purposes by the prime broker, provided the prime broker does not disaffirm the trade. The executing broker in a prime broker relationship should treat the account as a broker-dealer fail in the name of the prime broker for the benefit of the customer.

However, if the prime broker disaffirms the trade, the executing broker must treat the account as its own customer.

(SEC Letter to SIA, January 24, 1994) (No. 94-5, May 1994)

/06 Parent, Affiliate or Sister Corporation of Broker-Dealer

Security accounts carried by a broker-dealer for a non broker-dealer parent, affiliate or sister corporation are “customers” of the broker-dealer. Credit balances held for these accounts are required to be included in the Reserve Formula and fully-paid excess margin securities are subject to the possession or control requirements of SEA Rule 15c3-3. Debit balances are subject to the restrictions in SEA Rule 15c3-3(Exhibit A - Note E(4)).

Fails to deliver and fails to receive with a parent or affiliate who is also a broker-dealer (may be foreign or domestic) are treated according to interpretation 15c3-3(Exhibit A)/08 (Allocation Chart). These transactions are also subject to paragraph (d) of SEA Rule 15c3-3 and subparagraph (c)(2)(ix) of SEA Rule 15c3-1.

Affiliated entities are not per se a “non-customer” unless the affiliated entity is a broker-dealer or excluded by definition. It is the nature of the account or the transaction as a security account or security transaction which will determine the status of the entity under SEA Rule 15c3-3. Non-securities related transactions should not be recorded in the customer account ledgers.

(SEC Letter to Mesirov Financial Corp., July 13, 1987)  
(NYSE Interpretation Memo 88-5) (No. 94-5, May 1994)

In cases where the affiliated entity is a foreign bank or a foreign broker-dealer refer to interpretations 15c3-3(a)(1)/032 (Foreign Banks/Customer and Non-Customer) and 15c3-3(a)(1)/033 (Foreign Broker-Dealers/Customer and Non-Customer).

(SEC Staff to NYSE) (No. 02-7, August 2002)

SEA Rule 15c3-3(a)(1)/06

(a)(1) DEFINITIONS; CUSTOMER (continued)

/07 Securities Accounts of Government Sponsored Enterprises

The securities accounts of Government Sponsored Enterprises (such as Freddie Mac and Fannie Mae) should be treated as customer accounts for purposes of SEA Rule 15c3-3.

(SEC Staff to NYSE) (No. 07-4, April 2007)

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SEA Rule 15c3-3(a)(1)/07

(a) DEFINITIONS (continued)

(2) The term “securities carried for the account of a customer” (hereinafter also “customer securities”) shall mean:

(i) Securities received by or on behalf of a broker or dealer for the account of any customer and securities carried long by a broker or dealer for the account of any customer; and

(ii) Securities sold to, or bought for, a customer by a broker or dealer.

(3) The term “fully paid securities” means all securities carried for the account of a customer in a cash account as defined in Regulation T (12 CFR 220.1 et seq.), as well as securities carried for the account of a customer in a margin account or any special account under Regulation T that have no loan value for margin purposes, and all margin equity securities in such accounts if they are fully paid: Provided, however, that the term fully paid securities does not apply to any securities purchased in transactions for which the customer has not made full payment.

(4) The term “margin securities” means those securities carried for the account of a customer in a margin account as defined in section 4 of Regulation T (12 CFR 220.4), as well as securities carried in any other account (such accounts hereinafter referred to as “margin accounts”) other than the securities referred to in paragraph (a)(3) of this section.

(a) DEFINITIONS (continued)

(5) The term “excess margin securities” shall mean those securities referred to in paragraph (a)(4) of this section carried for the account of a customer having a market value in excess of 140 percent of the total of the debit balances in the customer’s account or accounts encompassed by paragraph (a)(4) of this section which the broker or dealer identifies as not constituting margin securities.

/01 Amount in Excess of 140% of Customer Debit

This term means those securities carried in a customer’s security accounts having a market value in excess of 140% of the customer’s net debit balance in such accounts. The net debit balance is determined by combining both debit and credit balances in all of a customer’s security accounts exclusive of the credit balance in any bona fide short accounts after marking the short positions contained therein to the market. For these purposes only, when-issued transactions and unsettled security transactions in cash accounts are ignored. Unsettled security transactions are unpaid for security purchases and security sales where securities sold have not been received by the broker-dealer.

(SEC Release 34-9922, January 2, 1973)

(6) The term “qualified security” shall mean a security issued by the United States or a security in respect of which the principal and interest are guaranteed by the United States.

/01 GNMA Participation Certificates and Mortgage-Backed Securities

In addition to securities issued by the United States Treasury, Participation Certificates and Mortgage-Backed securities guaranteed by the Government National Mortgage Association (GNMA) have been deemed acceptable for deposit as a “qualified security”.

(SEC Staff to NYSE) (No. 88-1, February 1988)

/011 U. S. Governments Obtained Through Repo

U.S. Government securities obtained through repurchase agreements initiated by other brokers or dealers may be deposited into Reserve Bank Accounts.

(SEC Letter to NYSE, July 16, 1974)

(a)(6) DEFINITIONS; QUALIFIED SECURITY (continued)/012 Certificates of Deposit in Reserve Bank Accounts

Reserve Bank Account (Customer and PAB) deposits required under 15c3-3(e) may include Certificates of Deposit, provided:

1. The Certificates of Deposit is with a non-affiliated bank as defined under SEA Rule 15c3-3(a)(7) and the account is established in accordance with the requirements of SEA Rules 15c3-3(e) and (f);
2. The Certificates of Deposit are subject to withdrawal at any time pursuant to the requirements of Regulation Q of the Federal Reserve System and are valued for an amount equal to the deposit less any applicable early withdrawal penalty; and
3. The broker-dealer excludes Certificates of Deposit with any one non-affiliated bank to the extent that the total amount deposited exceeds 15% of the bank's equity capital as reported by the bank in its most recent Call Report or any successor form the bank is required to file by its appropriate Federal banking agency (as defined by section 3 of the Federal Deposit Insurance Act (12 U.S.C. 183)).

Certificates of Deposit maintained at an affiliated bank of the broker-dealer are treated as non-qualified deposits under SEA Rule 15c3-3(e).

Note: See interpretation 15c3-3(a)(6)/0121 (Certificates of Deposit in Reserve Bank Accounts – Aggregation of Deposits for Concentration Calculation).

(SEC Staff to NYSE) (No. 83-1, January 1983) (No. 88-1, February 1988)

(SEC Staff to NYSE) (No. 03-2, March 2003)

(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

(a)(6) DEFINITIONS; QUALIFIED SECURITY (continued)/0121 Certificates of Deposit in Reserve Bank Accounts – Aggregation of Deposits for Concentration Calculation

Reserve Bank Accounts (Customer and PAB) maintained at the same non-affiliated bank which contain certificates of deposit, money market deposits, time deposits and cash deposits must be aggregated in determining the total amount deposited when computing the concentration calculation pursuant to interpretation 15c3-3(a)(6)/012.

Note: See interpretations 15c3-3(e)(1)/010 (Money Market Deposits in Reserve Bank Accounts – Aggregation of Deposits for Concentration Calculation), 15c3-3(e)(1)/012 (Time Deposits in Reserve Bank Accounts – Aggregation of Deposits for Concentration Calculation) and 15c3-3(e)(5)/01 (Cash Deposits in Reserve Bank Accounts – Aggregation of Deposits for Concentration Calculation).

(SEC Staff to NYSE) (No. 05-2, January 2005)  
(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

/013 Stripped Securities Deposited

Securities which have been stripped by the U.S. Government and are guaranteed by the U.S. Government may be deposited in the Reserve Bank Account.

There should be a reduction to the value of the securities by 6% if the securities mature longer than one year.

The stripped securities may represent principal and/or interest obligations.

(SEC Staff to NYSE) (No. 92-13, December 1992)

Callable interest obligation stripped U.S. Government securities are not qualified for deposit into Reserve Bank Accounts (see interpretation 15c3-3(a)(6)/04).

(SEC Staff to NYSE) (No. 02-7, August 2002)

/014 Ginnie Mae REMIC Trust Securities

Ginnie Mae REMIC Trust Securities that are issued under the Ginnie Mae Multiclass Securities Program which are guaranteed by the Government National Mortgage Association (GNMA) as to the timely payment of principal and interest, pursuant to Section 306(g) of the National Housing Act, have been deemed acceptable for deposit as “qualified securities” into a Reserve Bank Account.

(SEC Staff to NYSE) (No. 03-3, April 2003)

SEA Rule 15c3-3(a)(6)/014

(a)(6) DEFINITIONS; QUALIFIED SECURITY (continued)/02 Non-Qualified Securities

Securities issued by the government-sponsored enterprises and international institutions shown below are not guaranteed by the United States as to the payment of principal and interest and are not qualified for deposit into Reserve bank accounts.

Government-Sponsored Enterprises - Issues

## Farm Credit System

- Bank for Cooperatives
- Federal Intermediate Credit Banks
- Federal Land Banks
- Federal Farm Credit Consolidated Systemwide Bonds and Discount Notes

## Federal Home Loan Banks

- Consolidated Bonds, Discount Notes and Eurodollar Consolidated Bonds (Foreign Targeted Issue)

## Financing Corporation

- Long Term Notes

## Federal Home Loan Mortgage Corporation

- All issues except Mortgage-Backed Bonds which are guaranteed indirectly through GNMA

## Federal National Mortgage Association (FNMA)

- All issues except Mortgage-Backed Bonds which are guaranteed indirectly through GNMA

## Student Loan Marketing Association

- All issues

## United States Postal Service

- Bonds



(a)(6) DEFINITIONS; QUALIFIED SECURITY (continued)/02 Non-Qualified Securities (continued)International Institutions - Issues

African Development Bank  
All issues

Asian Development Bank  
All issues

Inter-American Development Bank  
All issues

International Bank for Reconstruction and Development (World Bank)  
All issues

(SEC Staff to NYSE) (No. 88-1, February 1988)

/03 Collateralized Mortgage Obligations (CMOs)

CMOs are not “qualified securities”.

While they may be secured by mortgage-backed securities that are issued or guaranteed by the United States, they are separate securities neither issued nor guaranteed by the United States.

(SEC Letter to Marcotte Hume & Associates, Inc., June 29, 1988) (No. 89-7, June 1989)

/04 Callable Interest Obligation Stripped Securities

Callable interest obligation stripped U.S. Government securities, even though stripped and guaranteed by the U.S. Government, are not qualified for deposit into Reserve Bank Accounts.

(SEC Staff to NYSE) (No. 02-7, August 2002)

/05 Certificates of Deposit Issued by a Parent or Affiliated Bank

Certificates of deposit issued by a parent or affiliated bank of the broker-dealer are not qualified for deposit into Reserve Bank Accounts.

(SEC Staff to NYSE) (No. 03-2, March 2003)

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SEA Rule 15c3-3(a)(6)/05

(a) DEFINITIONS (continued)

(7) The term “bank” means a bank as defined in section 3(a)(6) of the Act and will also mean any building and loan, savings and loan or similar banking institution subject to supervision by a Federal banking authority. With respect to a broker or dealer that maintains its principal place of business in Canada, the term “bank” also means a Canadian bank subject to supervision by a Canadian authority.

(8) The term “free credit balances” means liabilities of a broker or dealer to customers which are subject to immediate cash payment to customers on demand, whether resulting from sales of securities, dividends, interest, deposits or otherwise, excluding, however, funds in commodity accounts which are segregated in accordance with the Commodity Exchange Act or in a similar manner, or which are funds carried in a proprietary account as that term is defined in regulations under the Commodity Exchange Act. The term “free credit balances” also includes, if subject to immediate cash payment to customers on demand, funds carried in a securities account pursuant to a self-regulatory organization portfolio margining rule approved by the Commission under section 19(b) of the Act (15 U.S.C. 78s(b)) (“SRO portfolio margining rule”), including variation margin or initial margin, marks to market, and proceeds resulting from margin paid or released in connection with closing out, settling or exercising futures contracts and options thereon.

(9) The term “other credit balances” means cash liabilities of a broker or dealer to customers other than free credit balances and funds in commodity accounts which are segregated in accordance with the Commodity Exchange Act or in a similar manner, or funds carried in a proprietary account as that term is defined in regulations under the Commodity Exchange Act. The term “other credit balances” also includes funds that are cash liabilities of a broker or dealer to customers other than free credit balances and are carried in a securities account pursuant to an SRO portfolio margining rule, including variation margin or initial margin, marks to market, and proceeds resulting from margin paid or released in connection with closing out, settling or exercising futures contracts and options thereon.

(10) The term “funds carried for the account of any customer” (hereinafter also “customer funds”) shall mean all free credit and other credit balances carried for the account of the customer.

(11) The term “principal officer” shall mean the president, executive vice president, treasurer, secretary or any other person performing a similar function with the broker or dealer.

(12) The term “household members and other persons related to principals” includes husbands or wives, children, sons-in-law or daughters-in-law and any household relative to whose support a principal contributes directly or indirectly. For purposes of this paragraph (a)(12), a principal shall be deemed to be a director, general partner, or principal officer of the broker or dealer.

SEA Rule 15c3-3(a)(12)

(a) DEFINITIONS (continued)

(13) The term “affiliated person” includes any person who directly or indirectly controls a broker or dealer or any person who is directly or indirectly controlled by or under common control with the broker or dealer. Ownership of 10% or more of the common stock of the relevant entity will be deemed prima facie control of that entity for purposes of this paragraph.

/01 Securities Accounts With Affiliates

Accounts which except for the affiliation would be classified as securities customers must be carried individually, by affiliate in accordance with SEA Rules 15c3-3 and 15c3-3a subject to Notes E(1) and E(6).

(SEC Staff to NYSE) (No. 91-9, July 1991)

(14) The term “securities account” shall mean an account that is maintained in accordance with the requirements of section 15(c)(3) of the Act (15 U.S.C. 78o(c)(3)) and §240.15c3-3.

(15) The term “futures account” (also referred to as “commodity account”) shall mean an account that is maintained in accordance with the segregation requirements of section 4d of the Commodity Exchange Act (7 U.S.C. 6d) and the rules thereunder.

(a) DEFINITIONS (continued)

(16) The term “PAB account” means a proprietary securities account of a broker or dealer (which includes a foreign broker or dealer, or a foreign bank acting as a broker or dealer) other than a delivery-versus-payment account or a receipt-versus-payment account. The term does not include an account that has been subordinated to the claims of creditors of the carrying broker or dealer.

/01 Non-Conforming Subordination Agreements for PAB Account Exclusion

A proprietary securities account of a broker-dealer, including a proprietary securities account of a foreign broker-dealer and a proprietary securities account of a foreign bank acting as a broker-dealer, shall not be considered a “PAB Account,” as that term is defined in paragraph (a)(16) of Rule 15c3-3, provided the following conditions are met:

1. A written non-conforming subordination agreement exists between the broker-dealer carrying the account (the “Carrying Broker-Dealer”) and the entity subordinating the account (the “Subordinating Entity”), which subordinates claims for cash and securities in the account to the claims of all customers of the Carrying Broker-Dealer;
2. The non-conforming subordination agreement is signed by a duly authorized officer of the Carrying Broker-Dealer and the Subordinating Entity;
3. The non-conforming subordination agreement includes representations by the Subordinating Entity that the account: (i) does not give rise to a customer claim under the Securities Investor Protection Act of 1970 (“SIPA”) or the U.S. Bankruptcy Code; and (ii) does not contain assets of any person other than the Subordinating Entity;
4. The Subordinating Entity obtains a written opinion of outside counsel that it is legally authorized to make the subordination in the non-conforming subordination agreement; and
5. The non-conforming subordination agreement has been approved by the broker-dealer’s Designated Examining Authority.

Note: Under SIPA, customers are a class of creditor. By subordinating to all customers, the subordinating entity is subordinating to the “any” portion of “any or all creditors” in the exclusion from the term “customer” set forth in the SIPA definition under 15 U.S.C. §7811(2) and therefore does not have a customer claim in a SIPA proceeding.

(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

SEA Rule 15c3-3(a)(16)/01

(a)(16) DEFINITIONS; PAB ACCOUNT (continued)

/02 Piggyback Carrying Arrangements

The term “PAB account” includes the proprietary securities account, as well as the clearing deposit account, of both introducing broker-dealers (piggyback firm and intermediary firm) in a piggyback carrying arrangement.

Note: See interpretation 15c3-1(c)(2)(iv)(E)/027 (Piggyback Carrying Arrangements).

(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

(17) The term “Sweep Program” means a service provided by a broker or dealer where it offers to its customer the option to automatically transfer free credit balances in the securities account of the customer to either a money market mutual fund product as described in § 270.2a-7 of this chapter or an account at a bank whose deposits are insured by the Federal Deposit Insurance Corporation.

**(NEXT PAGE IS 2101)**

SEA Rule 15c3-3(a)(17)

(b) PHYSICAL POSSESSION OR CONTROL OF SECURITIES

(1) A broker or dealer shall promptly obtain and shall thereafter maintain the physical possession or control of all fully-paid securities and excess margin securities carried by a broker or dealer for the account of customers.

/01 Application Physical Possession

A broker-dealer is required to take timely steps in good faith to establish physical possession or control of customers' fully-paid and excess margin securities.

(SEC Release 34-9922, January 2, 1973)

/011 Borrowing Required

When a buy-in order is not executable under subparagraphs (d)(2), (d)(3), (d)(4), (h) and (m) of SEA Rule 15c3-3, the subject security must be borrowed, if available, to comply with this requirement to promptly obtain possession or control.

(SEC Staff to NYSE) (No. 89-7, June 1989)  
(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

/02 Convertible Securities

The requirement to maintain possession or control of a security is not accomplished by segregation of a security which is convertible into it.

(SEC Staff to NYSE) (No. 88-1, February 1988)

/021 ADRs and Ordinary Shares

ADRs and ordinary shares are not equivalents for possession and control purposes. An excess in either type of security cannot be used to satisfy a deficiency in the other.

(SEC Staff to NYSE) (No. 92-3, January 1992)

(b) PHYSICAL POSSESSION OR CONTROL OF SECURITIES (continued)

(2) A broker or dealer shall not be deemed to be in violation of the provisions of paragraph (b)(1) of this section regarding physical possession or control of customers' securities if, solely as the result of normal business operations, temporary lags occur between the time when a security is required to be in the possession or control of the broker or dealer and the time that it is placed in the broker's or dealer's physical possession or under its control, provided that the broker or dealer takes timely steps in good faith to establish prompt physical possession or control. The burden of proof shall be on the broker or dealer to establish that the failure to obtain physical possession or control of securities carried for the account of customers as required by paragraph (b)(1) of this section is merely temporary and solely the result of normal business operations including same day receipt and redelivery (turnaround), and to establish that it has taken timely steps in good faith to place them in its physical possession or control.

/01 Turnarounds – Allowability

Same day receipt and redelivery (turnaround) of a security which is received as a result of the settlement of a transaction is permitted even if such security of such class and issuer are required for possession or control, provided that the turnaround does not create or increase a deficiency. Same day receipt and redelivery does not include securities received as a recall from bank or stock loan, from safekeeping or from any control location.

It should be noted, however, that a broker-dealer must exercise due diligence to promptly obtain possession or control of fully paid and excess margin securities, including the taking of other steps prescribed by the rule for reducing or eliminating any deficiency.

(SEC Release 34-9922, January 2, 1973)

/02 Turnarounds - Availability

The same day turnaround rule is available only when the redelivery of the securities received is in satisfaction of a securities transaction that has reached settlement on the day of its receipt, is settling on the day of its receipt, or will reach settlement on the day following its receipt. Further, in order to qualify for the same day turnaround, such securities must be placed beyond the control of the broker-dealer on the same day such securities are received (receipt of a stock power on previously non-negotiable securities does not qualify as a turnaround).

(SEC Letter to Goldman, Sachs & Co., September 21, 1973)

(b)(2) PHYSICAL POSSESSION OR CONTROL OF SECURITIES (continued)

/021 Turnarounds - Non-Availability

The same day turnaround rule is not available for return of securities borrowed, securities loans or recalls from bank or stock loans.

(SEC Staff to NYSE) (No. 88-1, February 1988)

/03 Deliveries

A delivery or Removal of Securities is prohibited if it would create or increase a deficiency in the quantity of securities by class and issuer required to be in possession or control.

(SEC Release 34-9922, January 2, 1973)

Subparagraph (b)(2) of SEA Rule 15c3-3 does not provide an exception to the above prohibition even though timely steps can be taken to correct a deficiency so created or increased.

(SEC Letter to John Muir & Co., December 15, 1980) (No. 81-9, February 1981)

/031 ACATS Deliveries

A delivery of a customer's account transferred under the Automated Customer Account Transfer System (ACATS) of NYSE Rule 412(e) is permissible on a fully paid cash account as it should not result in the creation or increase of a deficit if segregation requirements and control locations are reduced by an equal quantity. However, a delivery of an ACATS fail on margin accounts is prohibited if it would create or increase a deficit.

(SEC Staff to NYSE) (No. 94-5, May 1995)

/032 Segregation Systems – “Fluid” or “Liquid” Seg

A segregation system designed to create an excess of securities for which there are delivery needs may eliminate a deficit or create an excess in a given security by the reselection of securities designated for segregation in a customer's margin account provided the selection does not create or increase a deficit in another security.

(SEC Letter to NYSE, February 28, 1986) (No. 86-3, March 1986)



(b)(2) PHYSICAL POSSESSION OR CONTROL OF SECURITIES (continued)/033 Segregation Management Allocation System

A broker-dealer using a segregation allocation management system (“SAMS”) to eliminate a possession or control requirement deficit and/or create an excess in a given security by the re-selection of securities designated for segregation in a customer's margin account must satisfy the following conditions:

- The re-selection of securities cannot create or increase a deficit in another security.
- A verifiable, daily detailed audit trail is maintained which reconciles the excess/deficit quantity as computed and reported from the prior day's stock record to the excess/deficit quantity after the segregation substitution.
- The detailed description of the procedures the broker-dealer maintains to comply with the requirements of SEA Rule 15c3-3(d)(5) describes the approximate time of substitution and the audit trail reconciling the excess/deficit quantity after segregation substitution to the prior day's stock record.

Under a SAMS program, a delivery may not be effected when a security is in deficit, even if the deficit would not be increased because a release is effected by a substitution through the program and an equal number of shares are delivered. Same day turnaround privileges only apply to situations where there are actual receipts of securities from the settlement of transactions.

The above audit trail requirements are not required when segregation re-selection is done at the end of the business day and any segregation instructions generated by the SAMS program are included in that day's stock record and are thereby considered in the excess/deficit quantities calculated from that day's stock record.

(SEC Staff to NYSE) (No. 95-3, May 1995)  
(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

(b)(2) PHYSICAL POSSESSION OR CONTROL OF SECURITIES (continued)/04 Branch Office Deliveries

Broker-dealers effectuating deliveries through branch offices need not have the branch check an excess/deficit listing prior to making deliveries provided:

- Securities are not released from possession and control prior to the time limits established in SEC Release 34-9922 (see interpretation 15c3-3(d)(1)/01);
- Securities cease to be in possession and control for purposes of SEA Rule 15c3-3 when placed in transit; and
- No deliveries are made to a branch office if as of the close of business the previous day an excess did not exist in that security and such delivery does not exceed any excess that did exist.

(SEC Letter to Blyth, Eastman Dillon, June 5, 1974)

/05 Bond Redemption

Bonds required to be held in possession or control may be withdrawn and placed in a non-control location when required for redemption. They may be deposited in such non-control location for a period not exceeding 30 days before action is required to satisfy a possession or control deficiency.

When the redemption has not been completed within 30 days, the market value of the securities shall be included as a credit at Item 6 of the Reserve Formula computation and treated similarly to short stock dividends and distributions until the redemption is accomplished.

(SEC Staff to NYSE) (No. 90-11, December 1990)

/051 Conditional Redemption

Where a bond which has not been called is tendered for early redemption and is held pending the availability of funds or the occurrence of some other condition, it may not be considered to be in possession or control. However, if receipt is confirmed in writing by the paying agent, no action need be taken unless the bond is sold. In this event the bond must be returned or borrowed before delivery is made. When a customer bond has been tendered for early redemption, it should be reflected in the customer account statement.

(SEC Staff to NYSE) (No. 91-5, June 1991)

SEA Rule 15c3-3(b)(2)/051

(b)(2) PHYSICAL POSSESSION OR CONTROL OF SECURITIES (continued)/06 Stock Splits

A security subject to a stock split can be in the possession of the Depository Trust Company on the due bill off-date. When customers entitled to receive the split shares have been credited, the share amount of the distribution attributable to the shares held in possession or control on the due bill off-date shall be considered a good control location for five business days from due bill off-date.

(SEC Staff to NYSE) (No. 92-13, December 1992)

/061 Stock Dividends

A security subject to a stock dividend can be in the possession of the Depository Trust Company on the record date. When customers entitled to receive the dividend shares have been credited, the share amount of the dividend attributable to the shares held in possession or control on the record date shall be considered a good control location for five business days from payable date.

(SEC Staff to NYSE) (No. 92-13, December 1992)

**(NEXT PAGE IS 2121)**

(b) PHYSICAL POSSESSION OR CONTROL OF SECURITIES (continued)

(3) A broker or dealer shall not be deemed to be in violation of the provisions of paragraph (b)(1) of this section regarding physical possession or control of fully-paid or excess margin securities borrowed from any person, provided that the broker or dealer and the lender, at or before the time of the loan, enter into a written agreement that, at a minimum;

(i) Sets forth in a separate schedule or schedules the basis of compensation for any loan and generally the rights and liabilities of the parties as to the borrowed securities;

(ii) Provides that the lender will be given a schedule of the securities actually borrowed at the time of the borrowing of the securities;

(iii) Specifies that the broker or dealer:

(A) Must provide to the lender, upon the execution of the agreement or by the close of the business day of the loan if the loan occurs subsequent to the execution of the agreement, collateral, which fully secures the loan of securities, consisting exclusively of cash or United States Treasury bills and Treasury notes or an irrevocable letter of credit issued by a bank as defined in section 3(a)(6)(A) - (C) of the Act (15 U.S.C. 78c(a)(6)(A) - (C)) or such other collateral as the Commission designates as permissible by order as necessary or appropriate in the public interest and consistent with the protection of investors after giving consideration to the collateral's liquidity, volatility, market depth and location, and the issuer's creditworthiness; and

(B) Must mark the loan to the market not less than daily and, in the event that the market value of all the outstanding securities loaned at the close of trading at the end of the business day exceeds 100 percent of the collateral then held by the lender, the borrowing broker or dealer must provide additional collateral of the type described in paragraph (b)(3)(iii)(A) of this section to the lender by the close of the next business day as necessary to equal, together with the collateral then held by the lender, not less than 100 percent of the market value of the securities loaned; and

(b)(3)(iii) PHYSICAL POSSESSION OR CONTROL OF SECURITIES (continued)/01 Other Acceptable Collateral – Rescinded (No. 03-4, May 2003)/02 Other Acceptable Collateral - Government Securities Borrowing – Rescinded (No. 03-4, May 2003)/03 Amendment to the Written Agreement – Rescinded (No. 03-4, May 2003)/04 Other Acceptable Collateral

Broker-dealers may pledge, in accordance with all applicable conditions set forth below and in SEA Rule 15c3-3(b)(3), the following types of collateral (in addition to those permitted under SEA Rule 15c3-3(b)(3)) when borrowing fully paid and excess margin securities from customers:

1. “Government securities” as defined in Section 3(a)(42)(A) and (B) of the Exchange Act may be pledged when borrowing any securities.
2. “Government securities” as defined in Section 3(a)(42)(C) of the Exchange Act issued or guaranteed as to principal or interest by the following corporations may be pledged when borrowing any securities: (i) the Federal Home Loan Mortgage Corporation, (ii) the Federal National Mortgage Association, (iii) the Student Loan Marketing Association, and (iv) the Financing Corporation.
3. Securities issued by, or guaranteed as to principal and interest by, the following Multilateral Development Banks - the obligations of which are backed by the participating countries, including the U.S. - may be pledged when borrowing any securities: (i) the International Bank for Reconstruction and Development, (ii) the Inter-American Development Bank, (iii) the Asian Development Bank, (iv) the African Development Bank, (v) the European Bank for Reconstruction and Development, and (vi) the International Finance Corporation.
4. Mortgage-backed securities meeting the definition of a “mortgage related security” set forth in Section 3(a)(41) of the Exchange Act may be pledged when borrowing any securities.
5. Negotiable certificates of deposit and bankers acceptances issued by a “bank” as that term is defined in Section 3(a)(6) of the Exchange Act, and which are payable in the United States and deemed to have a “ready market” as that term is defined in 17 CFR 240.15c3-1 (see interpretation Rule 15c3-1(c)(2)(vii)/09), may be pledged when borrowing any securities.

SEA Rule 15c3-3(b)(3)(iii)/04

(b)(3)(iii) PHYSICAL POSSESSION OR CONTROL OF SECURITIES (continued)/04 Other Acceptable Collateral (continued)

6. Foreign sovereign debt securities may be pledged when borrowing any securities, provided that, (i) at least one nationally recognized statistical rating organization (“NRSRO”) has rated in one of its two highest rating categories either the issue, the issuer or guarantor, or other outstanding unsecured long-term debt securities issued or guaranteed by the issuer or guarantor; and (ii) if the securities pledged are denominated in a different currency than those borrowed, the broker-dealer shall provide collateral in an amount that exceeds the minimum collateralization requirement in paragraph (b)(3) of SEA Rule 15c3-3 (100%) by 1% when the collateral is denominated in the Euro, British pound, Swiss franc, Canadian dollar or Japanese yen, or by 5% when it is denominated in another currency.
7. Foreign sovereign debt securities that do not meet the NRSRO rating condition set forth in Item 6 above may be pledged only when borrowing non-equity securities issued by a person organized or incorporated in the same jurisdiction (including other debt securities issued by the foreign sovereign); provided that, if such foreign sovereign debt securities have been assigned a rating lower than the securities borrowed, such foreign sovereign debt securities must be rated in one of the four highest rating categories by at least one NRSRO. If the securities pledged are denominated in a different currency than those borrowed, the broker-dealer shall provide collateral in an amount that exceeds the minimum collateralization requirement in paragraph (b)(3) of SEA Rule 15c3-3 by 1% when the collateral is denominated in the Euro, British pound, Swiss franc, Canadian dollar or Japanese yen, or by 5% when it is denominated in another currency.
8. The Euro, British pound, Swiss franc, Canadian dollar or Japanese yen may be pledged when borrowing any securities, provided that, when the securities borrowed are denominated in a different currency than that pledged, the broker-dealer shall provide collateral in an amount that exceeds the minimum collateralization requirement in paragraph (b)(3) of SEA Rule 15c3-3 by 1%. Any other foreign currency may be pledged when borrowing any non-equity securities denominated in the same currency.

(b)(3)(iii) PHYSICAL POSSESSION OR CONTROL OF SECURITIES (continued)

/04 Other Acceptable Collateral (continued)

9. Non-governmental debt securities may be pledged when borrowing any securities, provided that, in the relevant cash market they are not traded flat or in default as to principal or interest, and are rated in one of the two highest rating categories by at least one NRSRO. If such securities are not denominated in U.S. dollars or in the currency of the securities being borrowed, the broker-dealer shall provide collateral in an amount that exceeds the minimum collateralization requirement in paragraph (b)(3) of Rule 15c3-3 by 1% when the securities pledged are denominated in the Euro, British pound, Swiss franc, Canadian dollar or Japanese yen, or by 5% when they are denominated in any other currency.

The categories of permissible collateral identified above do not include securities that (i) have no principal component, or (ii) accrue interest at the time of the pledge at a stated rate equal to or greater than 100% per annum (expressed as a percentage of the actual principal amount of the security).

Broker-dealers pledging any of the securities set forth above must, in addition to satisfying the notice requirements already contained in paragraph (b)(3) of Rule 15c3-3, include in the written agreement with the customer a notice that some of the securities being provided by the borrower as collateral under the agreement may not be guaranteed by the United States.

(SEA Release 34-47683, April 16, 2003) (No. 03-4, May 2003)

/05 Amendment to the Written Agreement

A mere modification of the written agreement with the customer will not permit the use of any collateral other than cash or U.S. Treasury bills and notes or an irrevocable letter of credit as stipulated in the text of subparagraph (b)(3)(iii) and the other acceptable collateral permitted under interpretation 15c3-3(b)(3)(iii)/04.

(SEC Staff to NYSE) (No. 03-4, May 2003)

- (iv) Contains a prominent notice that the provisions of SIPA may not protect the lender with respect to the securities loan transaction and that, therefore, the collateral delivered to the lender may constitute the only source of satisfaction of the broker's or dealer's obligation in the event the broker or dealer fails to return the securities.

**(NEXT PAGE IS 2141)**

SEA Rule 15c3-3(b)(3)(iv)

(b) PHYSICAL POSSESSION OR CONTROL OF SECURITIES (continued)

(4)(i) Notwithstanding paragraph (k)(2)(i) of this section, a broker or dealer that retains custody of securities that are the subject of a repurchase agreement between the broker or dealer and a counterparty shall:

(A) Obtain the repurchase agreement in writing;

/01 Written Agreement for Hold in Custody Repurchase Transactions

The Department of the Treasury interprets the provisions of 17 CFR 403.1, 403.4(e), and 403.5(d) to require registered broker-dealers transacting a business in government securities to obtain executed written agreements with their counterparties prior to entering into hold-in-custody repurchase transactions.

Note: 17 CFR 403.1 and 403.4(e) are Treasury Regulations that incorporate and/or modify SEA Rules 8c-1, 15c2-1, 15c3-2 and 15c3-3.

(Department of Treasury Letter to NYSE, August 2, 1990) (No. 90-8, September 1990)

(B) Confirm in writing the specific securities that are the subject of a repurchase transaction pursuant to such agreement at the end of the trading day on which the transaction is initiated and at the end of any other day during which other securities are substituted if the substitution results in a change to issuer, maturity date, par amount or coupon rate as specified in the previous confirmation;

(C) Advise the counterparty in the repurchase agreement that the Securities Investor Protection Corporation has taken the position that the provisions of SIPA do not protect the counterparty with respect to the repurchase agreement; and

(D) Maintain possession or control of securities that are the subject of the agreement.

SEA Rule 15c3-3(b)(4)(i)(D)



(b)(4) PHYSICAL POSSESSION OR CONTROL OF SECURITIES (continued)

(ii) For purposes of this paragraph (4), securities are in the broker's or dealer's control only if they are in the control of the broker or dealer within the meaning of § 240.15c3-3(c)(1), (c)(3), (c)(5) or (c)(6) of this title.

/01 Hold-In Custody Repos - Foreign Securities

The SEC staff has issued a no action letter that permits foreign securities which are the subjects of hold-in custody repurchase agreements to be in control to the same extent it could deem fully-paid customer foreign securities to be in control pursuant to interpretations 15c3-3(c)(4)/01 and 15c3-3(c)(7)/01.

(SEC Letter to The First Boston Corporation, June 17, 1988) (No. 89-7, June 1989)

/02 Hold-In Custody Repos - FNMA or FHLMC Securities

When a broker-dealer delivers proprietary FNMA or FHLMC securities to Federal National Mortgage Association or Federal Home Loan Mortgage Corporation to be exchanged for newly issued FHLMC OR FNMA REMICS or other derivative securities, in the event the securities are the subject of a repurchase agreement the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association may be considered as control locations for the securities submitted for not more than five business days.

(SEC Letter to PSA, January 4, 1990) (No. 90-11, December 1990)

(b)(4) PHYSICAL POSSESSION OR CONTROL OF SECURITIES (continued)

(iii) A broker or dealer shall not be in violation of the requirement to maintain possession or control pursuant to paragraph (b)(4)(i)(D) during the trading day if:

(A) In the written repurchase agreement, the counterparty grants the broker or dealer the right to substitute other securities for those subject to the agreement; and

(B) The provision in the written repurchase agreement governing the right, if any, to substitute is immediately preceded by the following disclosure statement, which must be prominently displayed:

REQUIRED DISCLOSURE

The [seller] is not permitted to substitute other securities for those subject to this agreement and therefore must keep the [buyer's] securities segregated at all times, unless in this agreement the [buyer] grants the [seller] the right to substitute other securities. If the [buyer] grants the right to substitute, this means that the [buyer's] securities will likely be commingled with the [seller's] own securities during the trading day. The [buyer] is advised that, during any trading day that the [buyer's] securities are commingled with the [seller's] securities, they will be subject to liens granted by the [seller] to its clearing bank and may be used by the [seller] for deliveries on other securities transactions. Whenever the securities are commingled, the [seller's] ability to resegment substitute securities for the [buyer] will be subject to the [seller's] ability to satisfy the clearing lien or to obtain substitute securities.

(iv) A confirmation issued in accordance with paragraph (b)(4)(i)(B) of this section shall specify the issuer, maturity date, coupon rate, par amount and market value of the security and shall further identify a CUSIP or mortgage-backed security pool number, as appropriate, except that a CUSIP or a pool number is not required on the confirmation if it is identified in internal records of the broker or dealer that designate the specific security of the counterparty. For purposes of this paragraph (b)(4)(iv), the market value of any security that is the subject of the repurchase transaction shall be the most recently available bid price plus accrued interest, obtained by any reasonable and consistent methodology.

(v) This paragraph (b)(4) shall not apply to a repurchase agreement between the broker or dealer and another broker or dealer (including a government securities broker or dealer), a registered municipal securities dealer, or a general partner or director or principal officer of the broker or dealer or any person to the extent that the person's claim is explicitly subordinated to the claims of creditors of the broker or dealer.

(b) PHYSICAL POSSESSION OR CONTROL OF SECURITIES (continued)

(5) A broker or dealer is required to obtain and thereafter maintain the physical possession or control of securities carried for a PAB account, unless the broker or dealer has provided written notice to the account holder that the securities may be used in the ordinary course of its securities business, and has provided an opportunity for the account holder to object.

**(NEXT PAGE IS 2201)**

SEA Rule 15c3-3(b)(5)

(c) CONTROL OF SECURITIES

Securities under the control of a broker or dealer shall be deemed to be securities which:

(1) Are represented by one or more certificates in the custody or control of a clearing corporation or other subsidiary organization of either national securities exchanges or of a registered national securities association, or of a custodian bank in accordance with a system for the central handling of securities complying with the provisions of §§ 240.8c-1(g) and 240.15c2-1(g) the delivery of which certificates to the broker or dealer does not require the payment of money or value, and if the books or records of the broker or dealer identify the customers entitled to receive specified quantities or units of the securities so held for such customers collectively; or

/01 Specific Deposit with OCC

When customers secure their obligations as writers of call options with fully-paid or excess margin underlying securities and such securities are placed on “Specific Deposit” with OCC they are considered to be under the control of the broker-dealer.

(SEC Letter to CBOE, February 11, 1975)

/02 Bulk Deposit With OCC to Cover Short Call – Rescinded (No. 04-3, June 2004)/020 Bulk Deposit With OCC to Cover Short Call

A customer’s fully-paid or excess margin securities, other than underlying securities, securing his obligations as a writer of a call option, generally may not be subjected to a lien by OCC and therefore may not be placed on a “bulk deposit” with OCC since this is not a control location for broker-dealers.

However, where a customer writes a call option, the proceeds of his writing transaction are included in the “customer” account at OCC. The broker or dealer will be required to deposit additional margin to secure the customer’s writing obligation, and to this extent, fully-paid or excess margin securities held by the broker or dealer to margin such customer’s writing obligations, may be used to the extent of 140% of the amount derived by adding to the customer’s net debit balance the amount of margin required by OCC from the clearing member or the amount of margin required by the broker or dealer’s Designated Examining Authority. Customers’ securities with a market value in excess of 140% of that amount must be maintained in the possession or control of the broker or dealer.

(SEC Letter to CBOE, February 11, 1975)  
(SEC Staff to NYSE) (No. 04-3, June 2004)

SEA Rule 15c3-3(c)(1)/020

(c)(1) CONTROL OF SECURITIES (continued)

/021 Bulk Deposit with OCC to Satisfy Margin Requirements

The “bulk deposit” of customer available securities with OCC to satisfy margin requirements is not to be considered a good control location.

(SEC Staff to NYSE) (No. 83-2, April 1983)

/03 Collateral Deposits of Customers’ Securities Securing Letter of Credit

The underlying or an unlike security purchased on margin by the customer can be deposited to secure a letter of credit but only to the extent of 140% of (1) the net debit balance in the customer’s account plus (2) the amount of margin required by OCC. The market value in excess of 140%, of the adjusted debit balance plus the amount of margin required, must be reduced to possession or control.

(SEC Letter to CBOE, March 14, 1975)

(c)(1) CONTROL OF SECURITIES (continued)/04 Mutual Fund Shares - Uncertificated

Uncertificated mutual fund shares carried by a fund or its custodian bank in an account designated as a Special Custody Account for the Exclusive Benefit of Customers of the broker-dealer may be considered to be a good control location provided:

1. The account contains only customers securities and is carried free of any lien or payment;
2. The fund is currently registered with the Commission pursuant to the Investment Company Act of 1940;
3. The broker-dealer carries the shares of investment companies “long” in the appropriate customer account;
4. The broker-dealer reflects separately for the securities of each fund all positions in their securities records or ledgers maintained pursuant to SEA Rule 17a-3 under the Securities Exchange Act;
5. The broker-dealer does not use the investment company shares in one customer’s account, which are not required, to satisfy the possession or control obligations related to other customers; and
6. The broker-dealer must not be aware of any substantial problems of an operational nature which the fund may be experiencing and which may endanger the securities of the customer.

(SEC Letter to NYSE, January 28, 1986) (No. 86-8, August 1986)

/041 Acknowledgment Letters

In order for mutual fund custody accounts to be considered as good control locations, as outlined under interpretation 15c3-3(c)(1)/04, the funds must provide acknowledgment letters to demonstrate that there are no liens against the securities.

Broker-dealers should notify their Designated Examining Authority of mutual fund companies which do not respond to a request for acknowledgment letters.

(SEC Staff to NYSE) (No. 92-13, December 1992)

SEA Rule 15c3-3(c)(1)/041

(c)(1) CONTROL OF SECURITIES (continued)/05 Uncertificated Mutual Fund Shares Collateralizing Advances to Customers

See interpretation 15c3-1(c)(2)(iv)(B)/021.

(SEC Staff to NYSE) (No. 86-8, August 1986)

/06 Long Free Position with NSCC - Stock Borrow Program

When participants of NSCC's Stock Borrow Program determines that a deficiency exists in the amount required to be in possession or control due to a recalculation of the requirement and the borrowing by NSCC, such borrowed amount may be considered as if in its possession or control, provided:

- The participant, in a timely manner on the day following the night cycle creation of the deficit, instructs NSCC to convert (and NSCC accomplishes same by 3:00 p.m. settlement) its "long valued position" into a "long free position", and
- No additional securities of the same class and issue are made available to be borrowed at the same time that securities are owed by NSCC via this "long free account".

(SEC Letter to NSCC, August 3, 1981) (No. 88-6, April 1988)

To clarify the criteria outlined above, the positions in the Long Free Account may be considered to be in the possession or control of the broker-dealer for a period not exceeding 14 calendar days from the initial establishment of the "long free position".

(SEC Letter to NSCC, May 10, 1984) (No. 92-13, December 1992)

/061 Overstating Long Free Position to Clearing Corporation

Broker-dealer may not overstate securities available for loan with the intent of taking corrective action when a deficit is created or increased. Any intentionally overstated position may not be considered to be a control location in computing excess deficit listings.

(SEC Staff to NYSE) (No. 91-5, April 1991)

(c)(1) CONTROL OF SECURITIES (continued)/07 Long Free Position with NSCC - Anticipated Delivery Program

When participants of NSCC's Anticipated Delivery Program creates or increases a possession or control deficiency of an amount not greater than the amount it anticipates receiving from NSCC during NSCC's evening allocation process, i.e, anticipated settlement, such amount anticipated but not settled may be treated as if in its possession or control for a period not exceeding 14 calendar days from the initial establishment of the "long free position" provided:

1. The deficit results from a delivery to settle a pending delivery obligation arising from an uncompleted sales transaction (not for bank loan or stock loan);
2. The participant, in a timely manner on the day following the night cycle creation of the deficit instructs NSCC to convert (and NSCC accomplishes same by 3:00 p.m. settlement) its "long valued position" into a "long free position"; and
3. Deficits attributable to bank loan must be recalled and effected within one business day instead of two.

(SEC Letter to NSCC, June 28, 1985) (No. 88-6, April 1988)



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(c) CONTROL OF SECURITIES (continued)

(2) Are carried for the account of any customer by a broker or dealer and are carried in an omnibus credit account in the name of such broker or dealer with another broker or dealer in compliance with the requirements of section 7(f) of Regulation T (12 CFR 220.7(f)), such securities being deemed to be under the control of such broker or dealer to the extent that it has instructed such carrying broker or dealer to maintain physical possession or control of them free of any charge, lien, or claim of any kind in favor of such carrying broker or dealer or any persons claiming through such carrying broker or dealer; or

(3) Are the subject of bona fide items of transfer; provided that securities shall be deemed not to be the subject of bona fide items of transfer if, within 40 calendar days after they have been transmitted for transfer by the broker or dealer to the issuer or its transfer agent, new certificates conforming to the instructions of the broker or dealer have not been received by the broker or dealer, the broker or dealer has not received a written statement by the issuer or its transfer agent acknowledging the transfer instructions and the possession of the securities or the broker or dealer has not obtained a revalidation of a window ticket from a transfer agent with respect to the certificate delivered for transfer; or

/01 Securities Depository Position Report of Transfer Items

A broker-dealer's position report prepared by a securities industry depository company which list securities sent to transfer will serve as a written statement for bona fide items of transfer. The depository company must, however, have received within the 40 calendar days prescribed, a confirmation or a revalidation of the window ticket from the transfer agent.

(SEC Letter to Pacific Securities Depository Trust Company, July 29, 1986)  
(No. 88-6, April 1988)

/02 Canadian Transfer Items via a Securities Depository Company

The receipt for transfer items signed by the Vancouver Stock Exchange for items sent by a securities industry depository company for redelivery to Canadian transfer agents does not satisfy the requirements of SEA Rule 15c3-3(c)(3).

The written statement of acknowledgment must be issued by the issuer or the transfer agent.

The SEC has no agreement with the government of Canada or any of its Provinces regarding transfer agents.

(SEC Letter to Pacific Securities Depository Trust Company, July 29, 1986)  
(No. 88-6, April 1988)

SEA Rule 15c3-3(c)(3)/02

(c)(3) CONTROL OF SECURITIES (continued)

/03 Legal Box/ Unsigned Certificates

Securities in physical possession of the broker or dealer which are unsigned awaiting customers' signed stock powers and/or are pending legal papers needed to effect transfer are considered a good control location even though the securities are not acceptable to facilitate a good delivery. However, when the customer has been paid on the proceeds of the sale, these securities are only considered as good control for a period of ten (10) business days past settlement date.

(SEC Staff to NYSE) (No. 92-13, December 1992)

(4) Are in the custody of a foreign depository, foreign clearing agency or foreign custodian bank which the Commission upon application from a broker or dealer, a registered national securities exchange, or a registered national securities association, or upon its own motion shall designate as a satisfactory control location for securities; or

/01 Custody of Foreign Securities

Foreign securities lodged abroad are considered to be in control of the broker-dealer for whom they are held pursuant to SEA Rule 15c3-3(c)(4) to the extent that:

1. The broker-dealer whose customers' securities are lodged abroad, applies to the SEC and has not had his application rejected within 90 days of the SEC's receipt of the application;
2. Such securities are not subject to any right, charge, security interest, lien or claim of any kind in favor of the foreign entity except for their safe custody or administration; and
3. Beneficial ownership of such securities is freely transferable without the payment of money or value other than for safe custody or administration (where it is the practice in foreign countries for the foreign entity to maintain a lien, claim, or other charge on customers' foreign securities for custody and administration charges, it is the broker-dealer's responsibility to pay charges, claims, etc., promptly and to be certain that the amount of such charges, claims, etc., remain at all times minimal).

(SEC Release 34-10429, October 12, 1973)

SEA Rule 15c3-3(c)(4)/01

(c) CONTROL OF SECURITIES (continued)

(5) Are in the custody or control of a bank as defined in section 3(a)(6) of the Act, the delivery of which securities to the broker or dealer does not require the payment of money or value and the bank having acknowledged in writing that the securities in its custody or control are not subject to any right, charge, security interest, lien or claim of any kind in favor of a bank or any person claiming through the bank; or

/01 Savings and Loan Association

Federal Chartered Savings and Loan Association cannot be considered a good control location. It does not meet the definition of a bank under Section 3(a)(6) of the 1934 Act.

(SEC Letter to Bowman & Co., December 13, 1985) (No. 86-8, August 1986)

/011 Certificates of Deposit (Pooled CD's)

Where a broker-dealer is holding divided interests in jumbo certificates of deposit for its customers the certificates will not be considered to be in a good control location unless:

- The jumbo certificate is issued in the broker's name and is in the possession of the broker-dealer, or
- If the deposit is held in an account by the bank, the account must be in the name of the broker-dealer and the bank must have acknowledged to the broker-dealer in writing that the deposit is being held for the benefit of customers of the broker-dealer and is not subject to any right, charge, security interest, lien or claim of any kind in favor of the bank or any person claiming through the bank.

A balanced stock record position should be maintained for each CD describing the certificate and detailing the interests of each customer.

A savings and loan association may be treated as a good control location for this specific interpretation if the pooled certificates of deposit are handled in the manner specified.

(SEC Letter to Hunton & Williams, September 22, 1988) (No. 92-13, December 1992)

(c)(5) CONTROL OF SECURITIES (continued)

/02 Credit Unions

A credit union cannot be considered a good control location. It does not meet the definition of a bank under Section 3(a)(6) of the 1934 Act.

(SEC Letter to Olde & Co., Inc., May 26, 1986) (No. 88-1, February 1988)

(SEC Staff to NYSE) (No. 92-13, December 1992)

/03 Commingled Securities Under Custody Agreements

When security custody agreements contain the appropriate language of SEA Rule 15c3-3(c)(5) and the securities are in fact not pledged or subject to any lien or claim by or through the bank, firm and customer securities may be commingled in the account.

(SEC Staff to NYSE) (No. 90-11, December 1990)

(6)(i) Are held in or are in transit between offices of the broker or dealer; or (ii) are held by a corporate subsidiary if the broker or dealer owns and exercises a majority of the voting rights of all of the voting securities of such subsidiary, assumes or guarantees all of the subsidiary's obligations and liabilities, operates the subsidiary as a branch office of the broker or dealer, and assumes full responsibility for compliance by the subsidiary and all of its associated persons with the provisions of the Federal securities laws as well as for all of the other acts of the subsidiary and such associated persons; or

/01 In-Transit Over Five Days - Not Control

Securities in transit for five business days or less between the broker-dealer and control locations are also deemed to be under control. The books and records of the broker-dealer shall clearly account for such items. An "in-transit" account may be used for this purpose.

(SEC Release 34-9922, January 2, 1973)

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SEA Rule 15c3-3(6)(i)/01

(c) CONTROL OF SECURITIES (continued)

(7) Are held in such other locations as the Commission shall upon application from a broker or dealer find and designate to be adequate for the protection of customer securities.

/01 Foreign Securities

Foreign securities carried by broker-dealers for the account of customers of other broker-dealers are deemed in satisfactory control locations provided that:

1. The broker-dealer whose customers' securities are being carried elsewhere, applies to the SEC and has not had his application rejected within 90 days of the SEC's receipt of the application;
2. The securities are carried by the carrying broker-dealer in an account to be designated as a "Special Custody Account for the Exclusive Benefit of Customers of (name of the broker-dealer)" pursuant to SEA Rule 15c3-3(c)(7);
3. The account contains only the securities of customers of that particular broker-dealer; and
4. The particular broker-dealer for whose customers those securities are carried instructs the carrying broker-dealer to maintain physical possession or control of such securities free of any charge, lien, or claim of any kind in favor of the carrying broker-dealer.

Additionally, security transactions may not be effected through the account; its purpose being exclusively for the custody of customers' foreign securities. The carrying broker or dealer must also comply with the conditions set forth in interpretation 15c3-3(c)(4)/01.

(SEC Release 34-10429, October 12, 1973)

SEA Rule 15c3-3(c)(7)/01

(c)(7) CONTROL OF SECURITIES (continued)/02 Accommodation Transfers

A broker-dealer who wishes to utilize the facilities of another broker-dealer for accommodation transfers shall obtain a statement from the broker-dealer effecting such transfers which shall provide that accommodation transfers shall be carried by the carrying broker-dealer in an account designated as a “Special Custody Account for Accommodation Transfers for the Exclusive Benefit of Customers of (name of purchasing Broker-Dealer)”. The Account shall contain only the securities of customers of that particular broker-dealer in transfer, or pending transfer. The broker-dealer carrying the Account shall not effect security transactions through such Account, its purpose being exclusively for carrying securities being transferred for the customers of the purchasing broker-dealer. The broker-dealer carrying the Account shall agree that securities carried in such Account shall be free of any charge, lien or claim of any kind in favor of such carrying broker-dealer.

Additionally, the carrying broker-dealer shall undertake to comply fully with all aspects of SEA Rule 15c3-3 with respect to the Account (see interpretation 15c3-3(a)(1)/01).

The SEC would consider that such accounts be treated as control locations for purposes of SEA Rule 15c3-3(c)(7) upon an appropriate application to the SEC by the carrying broker-dealer (see interpretations 15c3-3(Exhibit A - Item 4)/02 and 15c3-3(c)(7)/03).

(SEC Letter to NASD, July 15, 1974)

SEA 15c3-3(c)(7)/02

(c)(7) CONTROL OF SECURITIES (continued)/021 Application for Approval of Accommodation Transfer Account

Application should be in form of letter as follows:

Mr. Michael Macchiaroli  
 Assistant Director  
 Division of Market Regulation  
 Securities and Exchange Commission  
 450 Fifth Street, N. W.  
 Washington, D. C. 20549

Re: Exchange Act Release No. 11102

Dear Mr. Macchiaroli:

In accordance with the captioned Release, please be advised that (name of accommodating broker i.e. your firm), a registered broker-dealer pursuant to Section 15 of the Securities Exchange Act of 1934, intends to establish an account designated "Special Custody Account for Accommodation Transfers for the Exclusive Benefit of Customers of (Name of accommodated firm)" ("Account"). (Name of accommodated firm) ("Broker"), is a registered broker-dealer pursuant to Section 15 of the Securities Exchange Act of 1934 with principal offices at (Address of accommodated firm).

1. (Name of your firm) will provide BROKER with a statement specifying all long positions carried by (name of your firm) in such ACCOUNT.
2. That ACCOUNT will contain only the securities of BROKER'S customers.
3. (Name of your firm) will not effect security transactions through such ACCOUNT.
4. The securities in the ACCOUNT will be free of any charge, lien or claim in favor of (name of your firm).
5. (Name of your firm) will undertake to comply fully with all aspects of SEA Rule 15c3-3 with respect to the ACCOUNT.

It is respectfully requested, in accordance with the captioned Release, that the Director of the Division of Market Regulation consider the representations made herein and designate the ACCOUNT that is to be established in accordance with these representations as a control location, as that term is defined in SEA Rule 15c3-3.

If there is any further information needed in connection with this request, kindly contact the undersigned at \_\_\_\_\_.

SEA 15c3-3(c)(7)/021



(c)(7) CONTROL OF SECURITIES (continued)/03 Special Omnibus Account And Accommodation Transfers

A special custody account need not be established for the purpose of obtaining accommodation transfers provided that a special omnibus account pursuant to Section 220.10 of Regulation T is established by the broker-dealer which satisfies the requirements of SEA Rule 15c3-3(c)(2) and the accommodation transfers are effected through such special omnibus account.

(SEC to Midwest Stock Exchange, Inc., May 4, 1977) (No. 78-1, May 1978)

/04 “Certificateless” Money Market Funds

Ordinarily the SEC will only approve locations, not specifically described in the rule as good control locations, on a case by case basis upon application. However, in the case of money market funds where the fund or its agent carries the security in an account for a broker or dealer, the SEC has stated,

“The Division has decided not to approve each application on a case by case basis. Instead, the Division will raise no question nor recommend any enforcement action where brokers and dealers treat money market funds as control locations for purposes of Rule 15c3-3 under the guidelines described herein.”

“First the fund must be currently registered with the Commission pursuant to the Investment Company Act of 1940. Further, the brokers or dealers must carry such investments “long” in such customer’s account. They must reflect separately for the securities of each fund all positions in their securities records or ledgers maintained pursuant to Rule 17a-3 under the Securities Exchange Act.[\*] In addition, the broker or dealer must not be aware of any substantial problems of an operational nature which the fund may be experiencing and which may endanger the securities of the customer.”

“For the purposes of this letter, “Money market” funds mean open-end investment companies which invest primarily in short-term debt instruments. Although the portfolio composition of “money market” funds may be variable both in terms of the types of securities purchased and their maturities, the portfolios of such funds typically will include U. S. Government and government agency issues, certificates of deposit, banker's acceptances, and commercial paper.”

(SEC Letter to NYSE, December 13, 1979)

SEA 15c3-3(c)(7)/04

(c)(7) CONTROL OF SECURITIES (continued)

/05 Limited Partnership Units

Limited partnership units are securities which if carried by a broker-dealer for the account of a customer, must be in the broker-dealer's possession or control pursuant to SEA Rule 15c3-3(b). If no certificate is issued, the broker-dealer may treat the general partner as a good control location for purposes of SEA Rule 15c3-3(c)(7) provided:

1. The limited partnership was registered with the Commission pursuant to Securities Act of 1933;
2. The broker-dealer carries the investment "long" in customers' accounts;
3. All securities positions of each limited partnership are reflected separately in securities records or ledgers maintained pursuant to SEA Rule 17a-3; and
4. The broker-dealer is not aware of any substantial problems of an operational nature which the partnership may be experiencing or which may endanger the interests of the customer.

(SEC Letter to Wayne Hummer & Co., March 6, 1986) (No. 86-8, August 1986)

(c)(7) CONTROL OF SECURITIES (continued)/051 Non-Registered Private Limited Partnership Units

Uncertificated private limited partnership units are securities which if carried by a broker-dealer for the account of a customer, must be in the broker-dealer's possession or control pursuant to SEA Rule 15c3-3(b). Even though no certificate is issued, the broker-dealer may treat the general partner as a good control location for purposes of SEA Rule 15c3-3(c)(7) provided:

1. The limited partnership units are exempt from registration, or not required to be registered;
2. The broker-dealer carries the investment "long" in customers' accounts;
3. All securities positions of each limited partnership are reflected separately in securities records or ledgers maintained pursuant to SEA Rule 17a-3;
4. The broker-dealer is not aware of any substantial problems of an operational nature which the partnership may be experiencing and which may endanger the interests of the customer;
5. The broker-dealer will obtain written assurances that limited partnership interests are not subject to any right, charge, security interest, lien, or claim of any kind in favor of the general partner or any person claiming through the general partner; and
6. The broker-dealer will maintain in a separate file a current list of all private partnerships of which limited partner interests will be carried on its books and records subject to the terms and conditions set forth. The list will contain the name of the contact person, telephone number, and address for each partnership.

(SEC Letter to Wilmer, Cutler & Pickering, July 30, 1997) (No. 98-5, May 1998)

(c)(7) CONTROL OF SECURITIES (continued)/06 Omnibus Account for Transfer of Customer Accounts

A so-called “omnibus account” used to facilitate the prompt and orderly transfer of customer accounts in bulk from one broker-dealer to another may be deemed a control location for a period of 30 business days from the date it is entered on the receiving broker-dealer’s books and records under the following circumstances:

1. The books and records of the receiving broker-dealer reflect the customer securities positions and money balances previously held by the delivering broker-dealer;
2. The books and records of the receiving broker-dealer reflect that the customer securities not yet transferred to it are “located” in the omnibus account at the delivering broker-dealer;
3. The receiving broker-dealer assumes the responsibility to clear all transactions in the customer accounts being transferred;
4. The delivering broker-dealer provides the receiving broker-dealer with written assurance that: (i) for purposes of SEA Rule 15c3-3, it will treat the omnibus account as a customer account and the customer securities maintained in the omnibus account as fully-paid securities; and (ii) it will promptly deliver the securities to the receiving broker-dealer; and
5. The receiving broker-dealer makes written application to the Commission to have the omnibus account designated as a control location and represents in the application that each of the above listed requirements will be complied with.

When the omnibus account ceases to be a control location, the receiving broker-dealer must include the market value of all customer securities not yet delivered to it in its reserve formula computation as a “failed to receive” credit item, whether or not it has any money credits related to the particular securities and must initiate action to buy-in the securities not yet delivered.

(SEC Letter to NYSE, December 5, 1988) (No. 89-7, June 1989)

(c)(7) CONTROL OF SECURITIES (continued)/07 Commercial Paper Evidenced Solely by Book Entry

When commercial paper, is not issued in the form of a physical certificate or note, but is held in account (book-entry form) by the issuer on its books and records, the broker-dealer may treat the issuer of the book-entry commercial paper as a control location under the following circumstances.

1. The delivery to the broker-dealer of certificates representing ownership of the commercial paper does not require the payment of money or value, and the issuer has acknowledged in writing that all commercial paper it holds for the broker-dealer is for the exclusive benefit of the broker-dealer's customers and is not subject to any right, charge, security interest, lien, or claim of any kind in favor of the issuer or any person claiming through the issuer;
2. The commercial paper has a maturity at the time of issuance not exceeding nine months, exclusive of days of grace (the maturity of any renewal thereof is likewise limited);
3. Either the commercial paper is rated in one of the three highest categories by at least two of the nationally recognized statistical rating organizations or other commercial paper issued by the issuer is so rated;
4. The broker-dealer carries the commercial paper "long" in the appropriate customer account;
5. The broker-dealer reflects the commercial paper of each issuer separately in its securities books and records maintained pursuant to SEA Rule 17a-3 and includes the commercial paper in its quarterly count made pursuant to SEA Rule 17a-13; and
6. The broker-dealer is not aware of any substantial problem, either of an operational or a financial nature, the issuer may be experiencing that could endanger the commercial paper of its customers.

Case by case approval for each location will not be required for book entry commercial paper where all the above circumstances are present.

(SEC Letter to NYSE, September 5, 1989) (No. 89-11, October 1989)

SEA 15c3-3(c)(7)/07

(c)(7) CONTROL OF SECURITIES (continued)/08 Shares Resulting from Dividend Reinvestment Program

When customer securities are held in book-entry form by the issuer or its registered transfer agent in the name of the broker-dealer as a result of Dividend Re-investment Programs (DRIPS), the broker-dealer may treat the issuer of the book-entry dividend shares as a good control location provided that the following conditions are satisfied:

1. The issuer or its registered transfer agent has acknowledged in writing that all dividend shares it holds for the broker-dealer are for the exclusive benefit of the broker-dealer's customers and are not subject to any right, charge, security interest, lien, or claim of any kind in favor of the issuer or any person claiming through the issuer;
2. The broker-dealer carries the dividend shares as well as the fractional shares long in the appropriate customer account;
3. The broker-dealer reflects the dividend shares of each issuer separately on its books and records maintained pursuant to SEA Rule 17a-3 and includes the book-entry dividend shares in its quarterly count made pursuant to SEA Rule 17a-13; and
4. The broker-dealer is not aware of any substantial problem of a operational nature that would preclude the issuer or its registered transfer agent from delivering the securities.

(SEC Staff to NYSE) (No. 98-5, May 1998)

SEA 15c3-3(c)(7)/08

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(d) REQUIREMENT TO REDUCE SECURITIES TO POSSESSION OR CONTROL

Not later than the next business day, a broker or dealer, as of the close of the preceding business day, shall determine from its books or records the quantity of fully paid securities and excess margin securities in its possession or control and the quantity of fully paid securities and excess margin securities not in its possession or control. In making this daily determination inactive margin accounts (accounts having no activity by reason of purchase or sale of securities, receipt or delivery of cash or securities or similar type events) may be computed not less than once weekly. If such books or records indicate, as of such close of the business day, that such broker or dealer has not obtained physical possession or control of all fully paid and excess margin securities as required by this section and there are securities of the same issue and class in any of the following noncontrol locations:

(1) Securities subject to a lien securing moneys borrowed by the broker or dealer or securities loaned to another broker or dealer or a clearing corporation, then the broker or dealer shall, not later than the business day following the day on which such determination is made, issue instructions for the release of such securities from the lien or return of such loaned securities and shall obtain physical possession or control of such securities within two business days following the date of issuance of the instructions in the case of securities subject to lien securing borrowed moneys and within five business days following the date of issuance of instructions in the case of securities loaned; or



(d)(1) REQUIREMENT TO REDUCE SECURITIES TO POSSESSION OR CONTROL  
(continued)

/01 Margin Section

The time at which instructions must be issued by the margin section to the cashiering section to acquire possession or control or the time at which such instructions may be released to the cashiering section are as follows:

1. In the case of purchases of securities by customers; on or before the business day following settlement date or the business day following actual date of receipt of payment whichever is later.
2. In the case of sales of securities by customers; not earlier than the morning of business on settlement date minus one business day, which is deemed to allow adequate time for processing securities for pending deliveries. However, such securities cannot be used for securities loans or bank loans.

A deficiency in a given security required for possession or control may be eliminated by revising the selection of securities in margin accounts (market value not in excess of 140% of the total of the debit balance in the customer's account or accounts) representing collateral for customers' indebtedness. In every instance where a determination as to which securities within the permissible limits constitute margin securities and which securities constitute excess margin securities of customers has been made or revised, it should be clearly reflected in the records of the broker-dealer.

(SEC Release 34-9922, January 2, 1973; Amended August 1994)

(SEC Staff to NYSE) (No. 95-3, May 1995)

(SEC Staff to FINRA) (FINRA Regulatory Notice 18-03)

/011 Early Release of Customers' Foreign Issued Securities From Possession or Control

Customers' foreign issued securities which have been sold for foreign settlement may be released on the day following execution of the sale, solely to facilitate its delivery. The security may not be used for any other purpose prior to settlement date.

(SEC Staff to NYSE) (No. 92-13, December 1992)

(d)(1) REQUIREMENT TO REDUCE SECURITIES TO POSSESSION OR CONTROL  
(continued)

/02 Cashiering Section

The deficiency or excess of securities required for possession or control must be determined on a daily basis as of the close of business on the preceding day. A separate record or listing must include the status of those securities which have either an excess or a deficit. For securities which are neither in excess or deficit, books and records must be available to verify that status.

For securities in deficit, action must be taken (if required by the rule) no later than the business day following the day on which the deficiency determination is made.

Securities needed for possession or control may be borrowed from another broker-dealer or from others rather than recall a security loaned, withdraw bank loan collateral or buy-in a dividend receivable. Securities may not be borrowed in lieu of other buy-in requirements in the rule such as fails to receive in excess of 30 days, short security differences and short in customer accounts in excess of 10 business days (paragraph (m)). If instructions shall have been issued for the recall of a security loaned or for the withdrawal of collateral securities in a bank loan, deliveries of that security may be made to the extent that completion of such recall would create an excess, provided the security recalled is returned within two business days following the date of issuance of the instructions in the case of collateral securities in a bank loan within five business days following the date of issuance of instructions in the case of securities loaned.

Note that the borrowing of securities for the purpose of their hypothecation in bank loan is not stated as a permissible activity at 220.16 of Regulation T of The Board of Governors of the Federal Reserve System.

(SEC Release No. 34-9922, January 2, 1973)

(d)(1) REQUIREMENT TO REDUCE SECURITIES TO POSSESSION OR CONTROL  
(continued)

/03 Requirements For Less Than Full Unit of Trading

Where less than a full unit of trading is required to be in possession or control, no action pursuant to paragraph (d) of the rule will be required and delivery of trading units will not be precluded if a deficiency of less than a trading unit will result.

However, while broker-dealers may pledge margin securities in units of trading without reference to the requirement to reduce to possession or control quantities of less than a trading unit, where such excess is material or substantial a broker-dealer should take appropriate corrective action.

Note: SEC Release No. 9922 permits a broker-dealer to revise his selection of securities in margin accounts representing collateral for customers' margin indebtedness.

(SEC letter to NASD, July 16, 1974)

/04 Specific Identification System

A broker-dealer that uses a specific identification system to satisfy possession and control requirements, need not take action to obtain securities that are in non-control locations other than the location in which a customer's fully-paid or excess margin securities are specifically located.

Example:

Firm owns securities and pledges them for a bank loan.

The next day a customer buys securities, pays for them and the selling broker fails to deliver.

The broker need not remove the securities from bank loan if he is on a specific identification system, since the customer's securities are in fail to receive (for less than 30 days).

(SEC letter to Sade & Co., March 29, 1973)

(d)(1) REQUIREMENT TO REDUCE SECURITIES TO POSSESSION OR CONTROL  
(continued)

/041 Allocation System

With reference to the example cited in interpretation 15c3-3(d)(1)/04 above or similar situations, if the broker-dealer is using an allocation system the securities must be recalled from bank loan or stock loan as required under SEA Rule 15c3-3(d)(1). Only the locations described under SEA Rule 15c3-3(c) are good possession or control locations.

The fact that time is allowed before action must be taken when securities are located in failed to receive or elsewhere does not make it a good control location.

(SEC Staff to NYSE)

/05 Omnibus Accounts

Broker-dealers carrying a special omnibus account under 220.10 of Reg. T must reduce securities to possession or control in accordance with the instructions of the introducing broker who makes daily determinations of fully paid and excess margin securities. A special omnibus account is also considered a customer account for purposes of SEA Rule 15c3-3 and the required 140% computation must also be complied with.

(SEC Release 34-9856, November 10, 1972)

/06 Customer Long vs. Customer, Non-Customer or Proprietary Short

When customers' fully paid or excess margin securities (other than those indicated under interpretation 15c3-3(d)(1)/07) allocate to a customer, non-customer or proprietary short position, the short market value is includible as a credit in the customer reserve formula computation.

In any case, a deficit may not be created or increased by delivery on a short sale and prompt steps must be taken to bring the security into possession or control.

Note: See SEA Rule 15c3-3(d)(4) for possession or control requirements.

(SEC Staff to NYSE) (No. 78-1, May 1978) (No. 88-10, June 1988)  
(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

SEA 15c3-3(d)(1)/06

(d)(1) REQUIREMENT TO REDUCE SECURITIES TO POSSESSION OR CONTROL  
(continued)

/07 Securities Held in Special Custody or Accommodation Transfer Accounts

When a broker-dealer is holding securities in a “Special Custody Account for the Exclusive Benefit of Customers” or in a “Special Custody Account for Accommodation Transfer for the Exclusive Benefit of Customers” of another broker-dealer, such securities:

1. Shall not be allocated against short positions in customer, non-customer or proprietary accounts;
2. Shall be promptly obtained and maintained in physical possession or control, through borrowing or otherwise (failure results in a violation of SEA Rule 15c3-3(b)(1)); and
3. The market value of securities not held in possession or control shall be included as a credit in the formula.

In addition, a purchasing broker-dealer cannot designate another broker-dealer who issues a short sale confirmation as a control location unless such seller is committed in a custody agreement to borrow and set aside the securities for the benefit of the purchasing broker-dealer’s customers.

(SEC Staff to NYSE) (No. 88-4, March 1988) (No. 88-10, June 1988)

/08 Retention of Excess/Deficit Listing

Excess/deficit listings are to be preserved for a period of three years with the first two years in an easily accessible place.

(SEC Staff to NYSE) (No. 78-1, May 1978)

(d)(1) REQUIREMENT TO REDUCE SECURITIES TO POSSESSION OR CONTROL  
(continued)

/09 Excess/Deficit Listing

The records which must be maintained by a broker-dealer to appropriately discharge his responsibilities under SEA Rule 15c3-3 and as set forth in Securities Exchange Act Release No. 9922 to promptly obtain and thereafter maintain possession or control of customers' fully paid and excess margin securities will, of necessity, be reflective of the degree of complexity of the broker-dealer's operations. Accordingly, a uniform recordkeeping format cannot be set forth at this time. In general, however, the records which must be prepared and maintained by a broker-dealer are those which he will utilize on a daily basis to:

1. Identify fully paid and excess margin securities;
2. Identify fully paid and excess margin securities which are in his physical possession or control;
3. Determine any deficiency of fully paid or excess margin securities which are not in his physical possession or control;
4. Determine the location of fully paid and excess margin securities which are not in physical possession or control; and
5. Record any action taken to reduce fully paid and excess margin securities to physical possession or control or to locations designated by paragraph (c) of the rule when paragraphs (d) or (m) of the rule requires that specified action be taken.

Thus, a separate record or listing as set forth in Release No. 9922 may not be necessary for some broker-dealers who can comply with the rule's provisions if the records outlined above or those maintained by him readily enable a broker or dealer (a) to issue instructions to acquire physical possession or control of fully paid or excess margin securities within the time frames set forth in SEA Rule 15c3-3 or (b) to determine the amount of any excess or deficiency of fully paid and excess margin securities either in or required to be in physical possession or control and the location of any such securities in deficiency, daily as of the close of business on the preceding day. Where a separate listing must be maintained, such listing must include any deficiency or excess of fully paid for and excess margin securities as determined from records, which should meet criteria (1) through (5) above.

(SEC to Troster, Singer & Co., January 21, 1975) (No. 78-1, May 1978)

(d)(1) REQUIREMENT TO REDUCE SECURITIES TO POSSESSION OR CONTROL  
(continued)

/091 Agreement to Pledge Loans

Effective February 28, 1986 securities collateralizing bank loans under agreements to pledge must be reflected in the daily securities records, bank loan subsidiary ledger and the excess/deficit listings.

(SEC staff to NYSE) (85-12, December 1985)

/10 Conversion of Securities Loan Recall To Fail To Receive

Securities needed for possession or control which are recalled from securities loaned cannot be converted to failed to receive if not returned within five business days and the required buy-in action must be initiated.

Broker-dealers may want to set up such securities loaned buy-ins in a separate account in order to separate such items from securities loaned locations for which no action is required.

Note: Broker-dealers may, however, borrow securities on day 6 in order to satisfy a deficit condition where securities loaned recall has not been returned within the time frames prescribed by the rule.

(SEC Staff to NYSE) (No. 78-1, May 1978)

(d)(1) REQUIREMENT TO REDUCE SECURITIES TO POSSESSION OR CONTROL  
(continued)

/101 Securities Loan Recalls - Elective Procedure

The SEC has issued a no-action letter regarding procedures for recalling stock loans. The letter provides a safe harbor for lenders that are attempting to recall securities loaned, that have not received the loaned securities within five business days of the date of issuance of the recall instructions, so long as the lender adheres to the elective procedures. The procedures require the lender to attempt to borrow the securities every day that the security continues to be needed to meet possession or control requirements. The procedures are as follows:

1. The lender's records indicate that a deficit exists in a security with an outstanding stock loan (Deficit Determination Day). The lender must attempt to borrow securities to fulfill its possession or control requirement.
2. No later than 11:30 a.m. NYT on the next business day following the Deficit Determination Day (Notification Day ("N")) the lender, if unsuccessful in its borrow attempt, must send notification to the original borrower that the securities loaned must be returned. The recall notice shall state that, after 2:30 p.m. NYT on the fifth business day after notification of the recall ("N+5"), the lender will execute a buy-in unless they receive the securities or proof of purchase of securities of like kind.
3. The lender continues to try to borrow securities to cover the deficit (N+1 through N+3).
4. On N+4, if the deficit still exists, the lender must send the borrower a reaffirmed recall notice that states that if the securities are not received by 2:30 p.m. NYT on N+5, the lender will execute a buy-in. If the lender fails to send a reaffirmed recall notice, the borrower may understand that the deficit has been satisfied and that return of the securities is no longer necessary.
5. On N+5 securities loaned that are subject to a recall notice must be received by 2:30 p.m. NYT. If the recalled securities are not received by 2:30 p.m. NYT on N+5, the buy-in must be executed for securities of a like kind and quantity to those originally loaned. However, if a lender receives proof of purchase of securities from the borrower, it shall not execute the buy-in on the fifth business day. If the securities remain undelivered at 2:30 p.m. NYT on the first business day after settlement date indicated in the proof of purchase provided by the borrower, the lender may buy-in the securities (without any further notice of intent to the borrower) in accordance with the established procedures of the principal exchange or market in which the securities are traded.

(SEC Letter to NYSE, February 14, 1994) (No. 94-5, May 1994)

SEA 15c3-3(d)(1)/101



(d)(1) REQUIREMENT TO REDUCE SECURITIES TO POSSESSION OR CONTROL  
(continued)

/102 Securities Borrowed and Loan “Conduit” Business

The SEC has granted relief from certain possession or control provisions of SEA Rule 15c3-3 to broker-dealers that conduct a securities borrowed and loan “conduit” business. In a “conduit” business, a broker-dealer borrows securities from one party and then lends the same securities to another party. A broker-dealer conducting a “conduit” business is not required to freeze the returned securities in the conduit account or recall securities loaned in the conduit account to eliminate a deficiency in its possession or control requirements (except as to intra-company loans) under the following conditions:

1. The broker-dealer must establish a separate clearing account at a depository.
2. The broker-dealer must use separate internal securities borrow and loan account numbers to reflect the “conduit” business.
3. The broker-dealer may not commingle customer securities with those in the conduit account, except as described below.
4. Intra-company stock borrows and loans are permissible between the broker-dealer’s conduit book and customer book, provided that the stock record reflects the borrows and loans, and related movements between the customer and conduit businesses. No customer excess securities available to be loaned may be loaned to and accumulated in the broker-dealer’s conduit accounts for potential securities loans. Intra-company borrows and loans may not be used by the broker-dealer to circumvent its possession or control requirements or reserve formula requirements under SEA Rule 15c3-3. When a deficit arises in a security loaned to the conduit, a recall of the securities loaned is required within the time parameters specified in SEA Rule 15c3-3(d)(1).
5. Securities loaned from the conduit book to the customer book may not be returned to the conduit book if such return would create or increase a deficit.
6. After recall by the customer book to the conduit book is made, if a conduit securities loan is returned (“received in”) the broker-dealer first must satisfy the customer recall even though the securities returned to the account originally were borrowed from a broker-dealer or institution and reloaned. If there is a prior recall to the conduit box from another stock lender, that recall may be satisfied before the customer book recall.

(SEC Letter to NYSE, December 21, 1991, NYSE Interpretation Memo 92-2)  
(No. 94-5, May 1994)

SEA 15c3-3(d)(1)/102

(d)(1) REQUIREMENT TO REDUCE SECURITIES TO POSSESSION OR CONTROL  
(continued)

/11 Dividend Longs, Suspense Longs and Long Differences

Unclaimed stock dividends payable, suspense longs and long differences are considered customer positions and are subject to possession or control requirements.

(SEC Staff to NYSE) (No. 78-1, May 1978)

/12 Pre-Authorized Delivery Service (PDQ)

Recording movements of the location of securities into a pending delivery box non-control location based on excess securities available for delivery a day prior to actual PDQ deliveries is not a violation of possession or control requirements, since such securities are not considered to be in a control location.

(SEC Staff to NYSE) (No. 78-1, May 1978)

/13 Pre-Authorized Delivery - Other

When securities are held in excess of possession or control requirements, they may be moved to a pending delivery box non-control location a day prior to pledge as collateral to bank loan or to stock loan.

(SEC Staff NYSE) (No. 90-11, December 1990)

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(d) REQUIREMENT TO REDUCE SECURITIES TO POSSESSION OR CONTROL  
(continued)

(2) Securities included on the broker's or dealer's books or records as failed to receive more than 30 calendar days, then the broker or dealer shall, not later than the business day following the day on which such determination is made, take prompt steps to obtain physical possession or control of securities so failed to receive through a buy-in procedure or otherwise; or

/01 Foreign Issued, Foreign Settled Securities

Broker-dealers may, in lieu of the buy-in requirement of paragraphs (d)(2) and (m) for foreign issued, foreign settled securities apply the following alternative procedures.

1. File a written notice with its designated examining authority of its intention to apply this alternative;
2. Thirty days after settlement date, take a proprietary haircut charge for the securities failed to receive or those due from a customer pursuant to SEA Rule 15c3-1, reduced by the equity (or increased by the deficit) in the transaction on a mark-to-market basis. In those countries where settlement is on a seller's option basis rather than on a customary settlement cycle, the settlement date for the purposes of this alternative will be considered to be a day not more than 30 days from trade date;
3. Maintain in its records a schedule of the current settlement cycle of each country in which it trades; and
4. Maintain and preserve separate records, in whatever form appropriate, detailing, by country, the total number of failed to receive contracts, the total number of long sale transactions with customers when possession of the securities has not been obtained pursuant to paragraph (m) and the total contractual value of those contracts and transactions.

All other no-action letters relating to this subject should be considered withdrawn and may no longer be relied upon.

(SEC Letter to SIA, June 16, 1988) (No. 88-20, November 1988)

/02 Fail to Receive Buy-In

When buy-in procedures are required to obtain securities located in fail to receive, such procedures must be initiated not later than the business day following the 30th calendar day.

(SEC Letter to J. B. Hanauer, February 22, 1988) (No. 89-7, June 1989)

(d)(2) REQUIREMENT TO REDUCE SECURITIES TO POSSESSION OR CONTROL  
(continued)

/021 Fail to Receive Buy-In Accomplishment

When the buy-in of aged fail to receive is necessary to obtain securities require to be held in possession or control, the security must be purchased if the order is executable.

In the event the buy-in order is not executable, other steps must be promptly taken to obtain required possession or control (i.e., borrowing).

(SEC Staff of NYSE) (No. 89-7, June 1989)

/0210 Use of Securities Subject to a Buy-in Procedure

The initiation of a buy-in procedure does not give the broker-dealer the right to use securities needed for possession or control that come into its possession during the period of time between the issuance of the buy-in and its actual execution and/or receipt of the securities that were the subject of the buy-in. Securities that are received physically by the firm during this interim period should be allocated to eliminate the deficiency that triggered the buy-in procedure. Only when that deficiency has been corrected can the firm resume use of securities for other purposes.

(SEC Staff of DMR to NASD, October 1988)

/022 CNS System Fails to Receive - Not Aged

Fails to receive from a registered clearing agency operating under a continuous net settlement system which is marked to market daily need not be aged. Thus, under ordinary circumstances such fails to receive need not be bought in under this subparagraph unless delivery is request by the customer, or a buy in is required through other rules or circumstances.

(SEC Staff to NYSE) (No. 90-11, December 1990)

(d)(2) REQUIREMENT TO REDUCE SECURITIES TO POSSESSION OR CONTROL  
(continued)

/03 Failed to Receive Resulting From NYSE Rule 412(e) (ACATS) Customer Securities  
Accounts Transfers

When customer's accounts transferred under the Automated Customer Account Transfer System (ACATS) of NYSE Rule 412(e) contain fully paid securities, the receiving broker-dealer must designate the securities as required to be held in possession or control even though the security may be failing to receive from the delivering broker-dealer. However, where the customer's long position is identified as related to a NYSE Rule 412(e) (ACATS) fail to receive, the following treatment may apply:

- Where the fail to receive contract has been marked to market the credit balance must be included in Item 4 for the reserve formula computation. The fail to receive, identified as a "412 fail" (as required under NYSE Rule 412 (b)(2)/02), may be treated as if it were a good control location allocating only to the position in the account received for up to the first 10 business days during which the fail is open.
- Fails to receive relating to customer positions which are classified as exempt under NYSE Rule 412(f) (and its interpretations /01 through /05 of the NYSE Interpretation Handbook) for which no cash has been received may be treated as if they are control locations allocating to the customer position in the specific account received for as long as the fail continues to be carried in compliance with NYSE Rule 412 and its interpretations. Where cash or a marked to market contract amount is to be paid upon receipt of the security, such amount must be included as a credit under Item 4 of the reserve formula computation.

Amounts to be received upon delivery of an ACATS failed to deliver item may be included as a debit under Item 12 of the reserve formula computation for 10 business days provided it is carried in compliance with NYSE Rule 412 and the security position does not allocate to a control location.

(SEC Staff to NYSE) (No. 90-1, February 1990)

(d)(2) REQUIREMENT TO REDUCE SECURITIES TO POSSESSION OR CONTROL  
(continued)

/04 Buy-In of Mortgage Backed Securities

Buy-ins are required for U.S. Government Mortgage Backed Securities that are in fail to receive status for more than 60 calendar days pursuant to the requirements of the Treasury Rule.

(U.S. Treasury Department Release, February 28, 1994)  
(SEC Staff to NYSE) (No. 95-3, May 1995)

/05 Extensions of Time

See paragraph (n) of this section for information regarding time periods and processing of extensions of time.

(SEC Staff to NYSE)

/06 Recaps by NSCC

In accordance with an SEC no-action letter dated December 22, 1987 a member organization participating in NSCC's RECAP service may treat the RECAP's settlement date as the date of the fail.

(SEC Staff to NYSE)

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(d) REQUIREMENT TO REDUCE SECURITIES TO POSSESSION OR CONTROL  
(continued)

(3) Securities receivable by the broker or dealer as a security dividend receivable, stock split or similar distribution for more than 45 calendar days, then the broker or dealer shall, not later than the business day following the day on which such determination is made, take prompt steps to obtain physical possession or control of securities so receivable through buy-in procedure or otherwise; or

/01 Extensions of Time

See paragraph (n) of this section for information regarding time periods and processing of extensions of time.

(SEC Staff to NYSE)

(4) Securities included on the broker's or dealer's books or records that allocate to a short position of the broker or dealer or a short position for another person, excluding positions covered by paragraph (m) of this section, for more than 30 calendar days, then the broker or dealer must, not later than the business day following the day on which the determination is made, take prompt steps to obtain physical possession or control of such securities. For the purposes of this paragraph (d)(4), the 30 day time period will not begin to run with respect to a syndicate short position established in connection with an offering of securities until the completion of the underwriter's participation in the distribution as determined pursuant to § 242.100(b) of Regulation M of this chapter (17 CFR 242.100 through 242.105); or

/01 Extensions of Time

See FINRA Regulatory Notice 14-13 (Regulatory Extension (REX) System Update) for information regarding time periods and processing of extensions of time.

(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

(5) A broker or dealer which is subject to the requirements of § 240.15c3-3 with respect to physical possession or control of fully paid and excess margin securities shall prepare and maintain a current and detailed description of the procedures which it utilizes to comply with the possession or control requirements set forth in this section. The records required herein shall be made available upon request to the Commission and to the designated examining authority for such broker or dealer.

**(NEXT PAGE IS 2401)**

SEA Rule 15c3-3(d)(5)



(e) SPECIAL RESERVE BANK ACCOUNT FOR THE EXCLUSIVE BENEFIT OF CUSTOMERS AND PAB ACCOUNTS

(1) Every broker or dealer must maintain with a bank or banks at all times when deposits are required or hereinafter specified a “Special Reserve Bank Account for the Exclusive Benefit of Customers” (hereinafter referred to as the “Customer Reserve Bank Account”) and a “Special Reserve Bank Account for Brokers and Dealers” (hereinafter referred to as the “PAB Reserve Bank Account”), each of which will be separate from the other and from any other bank account of the broker or dealer. Such broker or dealer must at all times maintain in the Customer Reserve Bank Account and the PAB Reserve Bank Account, through deposits made therein, cash and/or qualified securities in amounts computed in accordance with the formula attached as Exhibit A (17 CFR 240.15c3-3a), as applied to customer and PAB accounts respectively.

/01 Money Market Deposits in Reserve Bank Accounts

Reserve Bank Account (Customer and PAB) deposits required under SEA Rule 15c3-3(e) may include Money Market Deposit Accounts (MMDA), as defined under Regulation D of the Federal Reserve System, provided:

1. The MMDA deposit is with a non-affiliated bank as defined under SEA Rule 15c3-3(a)(7) and the account is established in accordance with the requirements of SEA Rules 15c3-3(e) and (f); and
2. The broker-dealer excludes MMDA deposits with any one non-affiliated bank to the extent that the total amount deposited exceeds 15% of the bank’s equity capital as reported by the bank in its most recent Call Report or any successor form the bank is required to file by its appropriate Federal banking agency (as defined by section 3 of the Federal Deposit Insurance Act (12 U.S.C. 183)).

MMDA deposits maintained at an affiliated bank of the broker-dealer are treated as non-qualified deposits under SEA Rule 15c3-3(e).

Note: See interpretation 15c3-3(e)(1)/010 (Money Market Deposits in Reserve Bank Accounts – Aggregation of Deposits for Concentration Calculation).

(SEC Staff to NYSE) (No. 88-1, February 1988)  
(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

(e)(1) SPECIAL RESERVE BANK ACCOUNT FOR THE EXCLUSIVE BENEFIT OF CUSTOMERS AND PAB ACCOUNTS (continued)

/010 Money Market Deposits in Reserve Bank Accounts – Aggregation of Deposits for Concentration Calculation

Reserve Bank Accounts (Customer and PAB) maintained at the same non-affiliated bank which contain money market deposits, certificates of deposit, time deposits and cash deposits must be aggregated in determining the total amount deposited when computing the concentration calculation pursuant to interpretation 15c3-3(e)(1)/01.

Note: See interpretations 15c3-3(a)(6)/0121 (Certificates of Deposit in Reserve Bank Accounts – Aggregation of Deposits for Concentration Calculation), 15c3-3(e)(1)/012 (Time Deposits in Reserve Bank Accounts – Aggregation of Deposits for Concentration Calculation) and 15c3-3(e)(5)/01 (Cash Deposits in Reserve Bank Accounts – Aggregation of Deposits for Concentration Calculation).

(SEC Staff to NYSE) (No. 05-2, January 2005)  
(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

(e)(1) SPECIAL RESERVE BANK ACCOUNT FOR THE EXCLUSIVE BENEFIT OF CUSTOMERS AND PAB ACCOUNTS (continued)

/011 Time Deposits in Reserve Bank Accounts

Reserve Bank Account (Customer and PAB) deposits required under SEA Rule 15c3-3(e) may include Time Deposits, provided:

1. The Time Deposit is with a non-affiliated bank as defined under SEA Rule 15c3-3(a)(7) and the account is established in accordance with the requirements of SEA Rules 15c3-3(e) and (f);
2. The broker-dealer receives a written confirmation from the non-affiliated bank stating the following: (i) the funds are payable upon demand; (ii) the funds are held free of any restrictions; and (iii) if prematurely withdrawn, the funds are subject only to the forfeiture of the interest; and
3. The broker-dealer excludes Time Deposits with any one non-affiliated bank to the extent that the total amount deposited exceeds 15% of the bank's equity capital as reported by the bank in its most recent Call Report or any successor form the bank is required to file by its appropriate Federal banking agency (as defined by section 3 of the Federal Deposit Insurance Act (12 U.S.C. 183)).

Time Deposits maintained at an affiliated bank of the broker-dealer are treated as non-qualified deposits under SEA Rule 15c3-3(e).

Note: See interpretation 15c3-3(e)(1)/012 (Time Deposits in Reserve Bank Accounts – Aggregation of Deposits for Concentration Calculation).

(SEC Staff to NYSE) (No. 96-3, April 1996) (No. 02-7, August 2002)  
(SEC Staff to NYSE) (No. 07-4, April 2007)  
(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

(e)(1) SPECIAL RESERVE BANK ACCOUNT FOR THE EXCLUSIVE BENEFIT OF CUSTOMERS AND PAB ACCOUNTS (continued)

/012 Time Deposits in Reserve Bank Accounts – Aggregation of Deposits for Concentration Calculation

Reserve Bank Accounts (Customer and PAB) maintained at the same non-affiliated bank which contain time deposits, certificates of deposit, money market deposits and cash deposits must be aggregated in determining the total amount deposited when computing the concentration calculation pursuant to interpretation 15c3-3(e)(1)/011.

Note: See interpretations 15c3-3(a)(6)/0121 (Certificates of Deposit in Reserve Bank Accounts – Aggregation of Deposits for Concentration Calculation), 15c3-3(e)(1)/010 (Money Market Deposits in Reserve Bank Accounts – Aggregation of Deposits for Concentration Calculation) and 15c3-3(e)(5)/01 (Cash Deposits in Reserve Bank Accounts – Aggregation of Deposits for Concentration Calculation).

(SEC Staff to NYSE) (No. 05-2, January 2005)  
(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

SEA Rule 15c3-3(e)(1)/012

(e)(1) SPECIAL RESERVE BANK ACCOUNT FOR THE EXCLUSIVE BENEFIT OF CUSTOMERS AND PAB ACCOUNTS (continued)

/02 IRA and ERISA Contribution Account

A separate Reserve Bank Account may be established to be used exclusively to deposit IRA and ERISA contributions pending purchase of mutual fund shares or other qualified investment for IRA and other qualifying retirement plans.

(SEC Letter to PaineWebber Incorporated, April 17, 1986) (No. 88-1, February 1988)

/03 Offshore Deposits

Offshore deposits (Eurodollars, etc.) whether representing demand deposits, time deposits or certificates of deposit are not good for special reserve bank account deposits under SEA Rule 15c3-3(e).

(SEC Staff to NYSE) (No. 86-8, August 1986)

/04 Borrowed Treasury Securities

A “qualified security” as defined by SEA Rule 15c3-3(a)(6), which has been borrowed may be deposited into a Reserve Bank Account provided the broker-dealer is a Primary Dealer. Borrowed qualified securities must be secured by cash or other qualified securities to be acceptable for 15c3-3 deposits.

The value allowed for the deposit is the lesser of the contract or market value of the securities borrowed. In lieu of valuing the securities at the lesser of contract or market broker-dealers can take a 2% reduction to the market value in valuing these securities for reserve formula deposit purposes.

(SEC Staff to NYSE) (No. 92-3, January 1992)

It is acceptable for a broker-dealer that is not a Primary Dealer to borrow qualified securities as defined by SEA Rule 15c3-3(a)(6) for deposit into a Reserve Bank Account.

(SEC Staff to NYSE) (No. 03-2, March 2003)

(e)(1) SPECIAL RESERVE BANK ACCOUNT FOR THE EXCLUSIVE BENEFIT OF CUSTOMERS AND PAB ACCOUNTS (continued)

/05 Conditions for Deposit of Qualified Securities

The SEC has prescribed the following conditions for holding “Qualified Securities” on deposit in a Rule 15c3-3 Special Reserve Account for the Exclusive Benefit of Customers:

Physical Certificates: The bank actually holding the certificates must acknowledge to the broker-dealer in writing that the certificates are identified on the bank’s books as being held free of lien in a special account for the exclusive benefit of customers of the broker-dealer.

Uncertificated Securities: The bank having the direct access to the Federal Reserve Bank book entry system must acknowledge in writing to the broker-dealer that the securities are held free of any lien in a special reserve account for the exclusive benefit of customers of the broker-dealer.

Reverse Repurchase Agreement Securities: Possession or control must be established as in the appropriate paragraph above.

Identification: The securities deposited must be clearly identified as to class or series of the issuer, interest rate and maturity.

Clearance Procedure: Where a purchase or sale involves funds or securities already held in the special reserve account, the values removed must be replaced with equal or greater value. Reductions to the special reserve account may only be made in conformity and compliance with SEA Rule 15c3-3(g) and supported by a reserve formula computation as required. The payment for the purchase and receipt of the securities or delivery of securities and deposit of proceeds in the special reserve account must take place simultaneously.

Correspondent Banks: Where purchase of the securities is made through a correspondent bank, the broker-dealer must be notified by the bank holding the qualified securities or having the direct contact with the Federal Reserve book entry system that:

1. The securities it is carrying for the correspondent bank are identified on its books as being held free of lien in a separate special account for the exclusive benefit of customers of the broker-dealer.
2. The securities are clearly identified as to class or series of the issuer, interest rate and maturity.

(NYSE Interpretation Memo No. 89-13, November 27, 1989)  
(SEC Staff to NYSE) (No. 90-1, February 1990)

(e)(1) SPECIAL RESERVE BANK ACCOUNT FOR THE EXCLUSIVE BENEFIT OF CUSTOMERS AND PAB ACCOUNTS (continued)

/051 Valuation of Reserve Deposits

If the market value of securities deposited falls below the reserve requirement an additional deposit should be made to maintain an amount not less than the amount computed in the prior reserve computation.

Qualified securities should be valued at the lesser of contract value or market value when the securities are obtained through reverse repurchase agreements or securities borrowed.

In lieu of valuing the securities at the lesser of contract value or market value, broker-dealers can take a 2% reduction to the market value in valuing these securities for reserve formula deposit purposes.

(SEC Staff to NYSE) (No. 92-3, January 1992)

/06 Reserve Deposit Made From Overdrawn Account

Checks deposited or funds wired to a Reserve Bank Account that create overdrafts or increase existing overdrafts in other bank accounts do not qualify as bona fide deposits. Consequently, a broker-dealer cannot meet its deposit requirements by utilizing such overdrawn funds.

(SEC Staff to NYSE and NASD) (No. 90-10, December 1990)

In order for a deposit to be considered bona-fide, the bank account from which the funds were wired must have had funds on deposit per the books of the broker-dealer in excess of the wired amount at the time the wire was sent.

A deposit made from an overdrawn account can only be considered an unsecured loan if the bank acknowledges in writing that the overdrawn amount is an unsecured loan and the bank agrees to only look toward the overdrawn account for payment (no cross liens).

(SEC Staff to NYSE) (No. 91-5, June 1991)  
(SEC Staff to NYSE) (No. 92-3, January 1992)

(e)(1) SPECIAL RESERVE BANK ACCOUNT FOR THE EXCLUSIVE BENEFIT OF CUSTOMERS AND PAB ACCOUNTS (continued)

/061 Cash Deposits into Reserve Bank Account

Cash deposited into a Reserve Bank Account must have originated directly from wire transfers of fed funds or certified checks and be in the account by 10 A.M.

Clearing house checks are not acceptable for direct deposit into the reserve bank account unless the checks are received directly from customers.

(SEC Staff to NYSE) (No. 99-5, May 1999)

Drafts, notes, or ACH deposits are not acceptable for direct deposit into the Reserve Bank Account.

(SEC Staff to NYSE) (No. 03-2, March 2003)

/062 Timeliness of Reserve Deposit

A broker-dealer may utilize a reserve bank account located outside of its normal home office (main headquarter) time zone. Funds and/or securities must be deposited into that account no later than one hour after the opening of its home office (but never later than 10 A.M. local time) provided prior written justification has been given to the DEA regarding using a reserve bank account located outside of the broker-dealer's home office time zone.

(SEC Staff to NYSE) (No. 99-5, May 1999)

/07 Foreign Currency Deposits

A firm may deposit foreign currency in a Special Reserve Bank Account, provided there is an offsetting customer credit balance in the same foreign currency in the Reserve Formula.

In addition, the bank where the deposit is held must meet the definition of a "bank" pursuant to SEA Rule 15c3-3(a)(7), and the account must be established and maintained pursuant to SEA Rule 15c3-3(f).

(SEC Staff to NYSE) (No. 96-3, April 1996)

SEA Rule 15c3-3(e)(1)/07



(e)(1) SPECIAL RESERVE BANK ACCOUNT FOR THE EXCLUSIVE BENEFIT OF CUSTOMERS AND PAB ACCOUNTS (continued)

/08 Tri-Party Repurchase Arrangement for Special Reserve Bank Account Deposits

A broker-dealer that elects to maintain its Special Reserve Bank Account (“the Account”) pursuant to a tri-party repurchase agreement arrangement where the bank agrees to act as the broker-dealer’s agent for the substitution of securities and funds on deposit, must comply with the following requirements:

1. The broker-dealer is responsible for any violation of SEA Rule 15c3-3 resulting from this arrangement.
2. Both the broker-dealer and the counterparty to the transaction must maintain accounts with the same bank.
3. The bank must have equity capital in excess of \$500,000,000.
4. The bank cannot be the counterparty, or be affiliated with the counterparty, to the transactions.
5. Daily confirmations must be provided by the bank to the broker-dealer disclosing the specific securities that were deposited into and withdrawn from the broker-dealer’s Account. The term “various” or other similar terms, cannot be used to identify the securities on the confirmations.
6. The bank must prepare monthly statements for the Account disclosing all money movements and securities activity. The specific securities deposited into and withdrawn from the Account must be disclosed and the time stamps for these movements must be made available upon request of the SEC or other SRO. The term “various” or other similar terms, cannot be used to identify the securities on the statements. In lieu of a separate monthly statement, the bank can provide daily activity reports as long as all activity is shown for each day of the month, and on days where no activity occur a statement is provided that states there were no money or securities movements in the account(s).
7. In lieu of recording the specific securities deposited into and withdrawn from the Account on its stock record, the broker-dealer may elect to produce a subsidiary listing or record which must clearly identify the specific securities deposited into and withdrawn from the Account. This subsidiary record must be maintained in accordance with the recordkeeping requirements of SEA Rules 17a-3 and 17a-4.

(e)(1) SPECIAL RESERVE BANK ACCOUNT FOR THE EXCLUSIVE BENEFIT OF CUSTOMERS AND PAB ACCOUNTS (continued)

/08 Tri-Party Repurchase Arrangement for Special Reserve Bank Account Deposits (continued)

8. Accurate pricing of securities must be performed by the bank. In addition, qualified securities used in these tri-party repurchase arrangements for deposit into the Account must have readily available market prices.
9. The broker-dealer will be responsible for verifying that appropriate qualified securities were deposited into the Account.
10. The bank must represent that it will at all times maintain funds or securities in the Account at least equivalent to the aggregate amount(s) deposited by the broker-dealer.
11. The bank must represent that it will not place a lien on funds or securities it moves as part of the tri-party repurchase arrangement prior to their deposit into the Account.

(SEC Staff to NYSE) (No. 97-6, October 1997)

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(e) SPECIAL RESERVE BANK ACCOUNT FOR THE EXCLUSIVE BENEFIT OF CUSTOMERS AND PAB ACCOUNTS (continued)

(2) With respect to each computation required pursuant to paragraph (e)(1) of this section, a broker or dealer must not accept or use any of the amounts under items comprising Total Credits under the formula referred to in paragraph (e)(1) of this section except for the specified purposes indicated under items comprising Total Debits under the formula, and, to the extent Total Credits exceed Total Debits, at least the net amount thereof must be maintained in the Customer Reserve Bank Account and PAB Reserve Bank Account pursuant to paragraph (e)(1) of this section.

/01 Substitution of Firm Bank Loans for Customer Bank Loans

The SEC has censured a broker-dealer for violating SEA Rule 15c3-3(e)(2) by substituting proprietary bank loans for customer bank loans prior to making the formula computation and reinstating the customer loans shortly thereafter.

The SEC advised that the intent and objective of SEA Rule 15c3-3, as indicated in SEC Release No. 34-9775 dated September 14, 1972, is...”to perfect the objective of the elimination of the use by broker-dealers of customer funds and securities to finance firm overhead and such firm activities as trading and underwriting through the separation of customer related activities from other broker-dealer operations”.

The SEC staff advised that broker-dealers that would otherwise have had a higher reserve deposit requirement should be aware that substitution of proprietary or non-customer bank loans for customer bank loans only for the week-end or on the day of the formula computation may be regarded as an intentional circumvention of the rule if the customer loans are reinstated shortly thereafter.

(NYSE Interpretation Memo No. 89-10, August 23, 1989)  
(SEC Staff to NYSE) (No. 89-11, October 1989)

(e)(2) SPECIAL RESERVE BANK ACCOUNT FOR THE EXCLUSIVE BENEFIT OF CUSTOMERS AND PAB ACCOUNTS (continued)

/02 Circumvention of the Rule's Requirement

The SEC staff advises that the following activities by broker-dealers may be considered as a circumvention of the requirement of SEA Rule 15c3-3(e)(2) and an avoidance of the deposit requirement of SEA Rule 15c3-3(e)(1).

1. During periods between formula computations funds are obtained by loaning customer securities. Immediately before a formula computation is made, securities are borrowed which are returned after the formula computation date and for purposes of the formula computation a presumption is made, through the application of an allocation system or otherwise, that the securities it borrowed - and not customer securities - were on loan on the formula computation date.
2. Any other device, window dressing or restructuring of transactions made solely to reduce an excess of credits over debits in the formula computation and not otherwise a normal business transaction.

The staff of the SEC further stated that such techniques may be in violation of the requirements of the rule in that customer derived funds are used during the period between computations "...in areas of the firm's business such as underwriting, trading and overhead" contrary to the purpose of the rule.

(NYSE Interpretation Memo No. 89-10, August 23, 1989)  
(SEC Staff to NYSE) (No. 89-11, October 1989)

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(e) SPECIAL RESERVE BANK ACCOUNT FOR THE EXCLUSIVE BENEFIT OF CUSTOMERS AND PAB ACCOUNTS (continued)

(3) RESERVE BANK ACCOUNT COMPUTATIONS

(i) Computations necessary to determine the amount required to be deposited in the Customer Reserve Bank Account and PAB Reserve Bank Account as specified in paragraph (e)(1) of this section must be made weekly, as of the close of the last business day of the week, and the deposit so computed must be made no later than one hour after the opening of banking business on the second following business day; provided, however, a broker or dealer which has aggregate indebtedness not exceeding 800 percent of net capital (as defined in § 240.15c3-1) and which carries aggregate customer funds (as defined in paragraph (a)(10) of this section), as computed at the last required computation pursuant to this section, not exceeding \$1,000,000, may in the alternative make the Customer Reserve Bank Account computation monthly, as of the close of the last business day of the month, and, in such event, must deposit not less than 105 percent of the amount so computed no later than one hour after the opening of banking business on the second following business day.

(ii) If a broker or dealer, computing on a monthly basis, has, at the time of any required computation, aggregate indebtedness in excess of 800 percent of net capital, such broker or dealer must thereafter compute weekly as aforesaid until four successive weekly Customer Reserve Bank Account computations are made, none of which were made at a time when its aggregate indebtedness exceeded 800 percent of its net capital.

(iii) A broker or dealer that does not carry the accounts of a “customer” as defined by this section or conduct a proprietary trading business may make the computation to be performed with respect to PAB accounts under paragraph (e)(1) of this section monthly rather than weekly. If a broker or dealer performing the computation with respect to PAB accounts under paragraph (e)(1) of this section on a monthly basis is, at the time of any required computation, required to deposit additional cash or qualified securities in the PAB Reserve Bank Account, the broker or dealer must thereafter perform the computation required with respect to PAB accounts under paragraph (e)(1) of this section weekly until four successive weekly computations are made, none of which is made at a time when the broker or dealer was required to deposit additional cash or qualified securities in the PAB Reserve Bank Account.

(iv) Computations in addition to the computations required in this paragraph (e)(3), may be made as of the close of any business day, and the deposits so computed must be made no later than one hour after the opening of banking business on the second following business day.

(v) The broker or dealer must make and maintain a record of each such computation made pursuant to this paragraph (e)(3) or otherwise and preserve each such record in accordance with § 240.17a-4.

(e)(3) SPECIAL RESERVE BANK ACCOUNT FOR THE EXCLUSIVE BENEFIT OF CUSTOMERS AND PAB ACCOUNTS (continued)

/01 Weekly Computations

If the normal month-ending day is other than that as of which a weekly computation would be made, only one computation will be required during that week, as of the month-ending day. In any case, a complete computation must be made as of the month end date.

See interpretation 15c3-3(Exhibit A)/01 for special rules covering the weekly determination of various Reserve Formula items.

(SEC Release 34-9922, January 2, 1973) (No. 83-2, April 1983)

If the normal month-end closing date is other than the last business day of the calendar month, the next weekly computation is required as of the close of the last business day of the following week. No computation is required as of the last business day of the calendar month.

(SEC Release 34-9922, January 2, 1973) (No. 89-7, June 1989)

/02 Recomputations

If broker-dealers compute the reserve requirement as of Friday and have a deposit requirement, and recompute on Tuesday as of Monday night and do not have a deposit requirement, they must make a deposit on Tuesday based on Friday's computation but then can immediately make a withdrawal based on Monday's determination.

(SEC Staff to NYSE)

/021 Reserve Deposits Focusing Around Bank Holidays

Deposits into the reserve bank account can be made on Wednesday in lieu of Tuesday when securities exchanges are open on the preceding Monday but it is considered a bank holiday.

(SEC Staff to NYSE) (No. 99-5, May 1999)

(e)(3) SPECIAL RESERVE BANK ACCOUNT FOR THE EXCLUSIVE BENEFIT OF CUSTOMERS AND PAB ACCOUNTS (continued)

/03 Required Weekly Computations For Monthly Computers

When a broker-dealer who calculates the Reserve Formula on a monthly basis finds that customer credits exceed \$1,000,000 or Aggregate Indebtedness exceeds 800 per centum of net capital, the Reserve Formula computation must be made weekly until customer credits (free credit and other credit balances carried for customers) are less than \$1,000,000 as reflected in four weekly computations, or aggregate indebtedness does not exceed 800 per centum of net capital whereupon the broker-dealer can return to a monthly calculation.

(SEC Staff to NYSE) (78-1, May 1978)

/04 Reducing Credits to Avoid Deposit - Prohibited

Once a deposit requirement is established, it may not be negated by using the proceeds of an unsecured or firm collateralized borrowing to reduce credit balances contained in the formula. The rule requires a deposit to be made.

(SEC Staff to NYSE) (No. 88-1, February 1988)

/05 Excess Reserve Account Deposits Into Affiliated Banks – Rescinded (No. 03-3, April 2003)

/051 Reserve Bank Account Cash Deposits with Parent and/or Affiliated Bank – Rescinded (FINRA Regulatory Notice 15-25)

(e) SPECIAL RESERVE BANK ACCOUNT FOR THE EXCLUSIVE BENEFIT OF CUSTOMERS AND PAB ACCOUNTS (continued)

(4) If the computation performed under paragraph (e)(3) of this section with respect to PAB accounts results in a deposit requirement, the requirement may be satisfied to the extent of any excess debit in the computation performed under paragraph (e)(3) of this section with respect to customer accounts of the same date. However, a deposit requirement resulting from the computation performed under paragraph (e)(3) of this section with respect to customer accounts cannot be satisfied with excess debits from the computation performed under paragraph (e)(3) of this section with respect to PAB accounts.

(5) In determining whether a broker or dealer maintains the minimum deposits required under this section, the broker or dealer must exclude the total amount of any cash deposited with an affiliated bank. The broker or dealer also must exclude cash deposited with a non-affiliated bank to the extent that the amount of the deposit exceeds 15% of the bank's equity capital as reported by the bank in its most recent Call Report or any successor form the bank is required to file by its appropriate Federal banking agency (as defined by section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813)).

/01 Cash Deposits in Reserve Bank Accounts – Aggregation of Deposits for Concentration Calculation

Reserve Bank Accounts (Customers and PAB) maintained at the same non-affiliated bank which contain cash deposits, money market deposits, time deposits and certificates of deposit must be aggregated in determining the total amount deposited when computing the concentration calculation pursuant to SEA Rule 15c3-3(e)(5).

Note: See interpretations 15c3-3(a)(6)/0121 (Certificates of Deposit in Reserve Bank Accounts – Aggregation of Deposits for Concentration Calculation), 15c3-3(e)(1)/010 (Money Market Deposits in Reserve Bank Accounts – Aggregation of Deposits for Concentration Calculation) and 15c3-3(e)(1)/012 (Time Deposits in Reserve Bank Accounts – Aggregation of Deposits for Concentration Calculation).

(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

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(f) NOTIFICATION OF BANKS

A broker or dealer required to maintain a Customer Reserve Bank Account and PAB Reserve Bank Account prescribed by paragraph (e)(1) of this section or who maintains a Special Account referred to in paragraph (k) of this section must obtain and preserve in accordance with § 240.17a-4 a written notification from each bank with which it maintains a Customer Reserve Bank Account, a PAB Reserve Bank Account, or a Special Account that the bank was informed that all cash and/or qualified securities deposited therein are being held by the bank for the exclusive benefit of the customers and account holders of the broker or dealer in accordance with the regulations of the Commission, and are being kept separate from any other accounts maintained by the broker or dealer with the bank, and the broker or dealer must have a written contract with the bank which provides that the cash and/or qualified securities will at no time be used directly or indirectly as security for a loan to the broker or dealer by the bank and will not be subject to any right, charge, security interest, lien, or claim of any kind in favor of the bank or any person claiming through the bank.

/01 Reserve Account Notification Letter

The notification letter required from the bank where the Reserve Account is established and maintained as required by SEA Rule 15c3-3(f) must be on bank stationary and signed by an authorized officer of the bank.

In addition, the letter must clearly state that said account “...shall be subject to no right, charge, security interest, lien or claim of any kind in favor of the bank or any person claiming through the bank.”

There must be no exceptions, either directly or indirectly, to this provision.

(SEC Staff to NASD) (No. 90-10, December 1990)

(f) NOTIFICATION OF BANKS (continued)/02 Amendment to Reserve Account Notification Letter

If the notification letter required from the bank, where the Reserve Account is established and maintained, contains language similar to the following:

[bank] may and is hereby authorized to obey the order, judgment, decree, or levy of any court which order, judgment, decree, or levy relates in whole or in part to the [Reserve] Account.

then the notification letter must be amended to also include the following provisions:

1. [bank] shall not assert any claim against the [Reserve] Account.
2. [bank] shall immediately notify the United States Securities and Exchange Commission (“SEC”), the Securities Investor Protection Corporation (“SIPC”), and the designated examining authority of the broker or dealer that maintains the [Reserve] Account at [bank] if a legal action is initiated asserting any claim against the [Reserve] Account or if a court order is entered relating to the [Reserve] Account.
3. In the event that any legal action in any court is initiated asserting any claim against the [Reserve] Account, [bank] shall inform the court that the [Reserve] Account is an account maintained at [bank] by a broker or dealer, that the [Reserve] Account was established pursuant to Securities Exchange Act of 1934 Rule 15c3-3, that all cash and/or qualified securities deposited in the [Reserve] Account are being held by [bank] for the exclusive benefit of customers and/or proprietary accounts of brokers or dealers (“PAB”) of the broker or dealer in accordance with the regulations of the SEC, and that [bank] has agreed in writing with the broker or dealer that the [Reserve] Account shall be subject to no right, charge, security interest, lien, or claim of any kind in favor of [bank] or any person claiming through [bank].

(SEC Staff to NYSE) (No. 02-5, May 2002)  
(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

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(g) WITHDRAWALS FROM THE RESERVE BANK ACCOUNTS

A broker or dealer may make withdrawals from a Customer Reserve Bank Account and a PAB Reserve Bank Account if and to the extent that at the time of the withdrawal the amount remaining in the Customer Reserve Bank Account and PAB Reserve Bank Account is not less than the amount then required by paragraph (e) of this section. A bank may presume that any request for withdrawal from a Reserve Bank Account is in conformity and compliance with this paragraph (g). On any business day on which a withdrawal is made, the broker or dealer shall make a record of the computation on the basis of which he makes such withdrawal, and he shall preserve such computation in accordance with § 240.17a-4.

/01 Federal Funds Sale or Loan

The sale or loan of Federal Funds on deposit in a Special Reserve Bank account whether made overnight or for an extended period are considered to be withdrawals without the computation required under SEA Rule 15c3-3(g).

(SEC Letter to Holland & Holland, August 20, 1984) (No. 84-9, November 1984)

/02 Reserve Computation Not Required - Substitution

A Reserve Account computation is not required when qualified securities are withdrawn provided that federal funds or other qualified securities have been deposited prior to or at the same time as the withdrawal.

Market appreciation and/or accrued interest on a deposit cannot be withdrawn without preparing a current reserve computation.

(SEC Letter to Olde & Co., Inc., April 1, 1986) (No. 88-1, February 1988)

(SEC Staff to NYSE) (No. 92-3, January 1992)

/021 Reserve Computation Not Required - Funds Received and Remitted by Mutual Fund Sponsor

No computation is required to withdraw funds from a separate Reserve Bank Account established to be used exclusively to deposit immediately upon receipt from customers for remittance to a specific mutual fund sponsor, provided:

- The funds are withdrawn only for remittance to the mutual fund sponsor no later than noon of the next business day following deposit; and
- The amount on deposit shall always equal the credits contained in the formula for the related customers.

(SEC Letter to The Ohio Company, March 21, 1985) (No. 88-1, February 1988)

(g) WITHDRAWALS FROM THE RESERVE BANK ACCOUNTS (continued)/03 Reserve Computation Not Required - IRA and ERISA Contributions

No computation is required to withdraw funds from a separate Reserve Bank Account established to be used exclusively to deposit immediately upon receipt for customers' IRA and ERISA contributions, provided:

- The amount on deposit is maintained in cash and is withdrawn only to purchase mutual fund shares or other qualified investments for IRA and other qualifying retirement plans for the customers whose funds were deposited into the separate account; and
- The amount on deposit shall always equal the credits contained in the formula for the related customers.

(SEC Letter to PaineWebber Inc., April 17, 1986) (No. 88-1, February 1988)

/04 Timeframe for Withdrawal

Excess funds may be withdrawn from the Reserve Bank Account no later than one hour after the opening of banking business on the second business day following the computation.

(SEC Letter to Wall Street Clearing Co., April 11, 1984) (No. 88-1, February 1988)

/041 Multiple Withdrawals

Multiple withdrawals from the Reserve Bank Account are not specifically prohibited as long as they are done within the permissible time frame from the completion of the reserve computation until no later than one hour after the opening of banking business on the second business day following the computation date. Furthermore, the sum of the withdrawals cannot exceed the amount computed to be in excess of the requirement.

Broker-dealers should not make a practice of multiple withdrawals.

(SEC Staff to NYSE) (No. 03-2, March 2003)

(g) WITHDRAWALS FROM THE RESERVE BANK ACCOUNT (continued)/05 Reserve Computation Not Required - Substantial Deposits For Specific Current Purpose

No computation is required to withdraw customer funds from a Reserve Bank Account when received in the following three circumstances and conditions:

- In anticipation of a securities transaction on behalf of that customer;
- In order to satisfy a customer's request in connection with a sale of the customer's securities which generates proceeds; or
- In order to pay an issuer for a customer transaction resulting from a firm contractual commitment.

The following conditions apply to each of the above circumstances:

1. The customer funds received in connection with a specific securities purchase or sale creating the free credit item are deposited directly into a separate Reserve Bank Account established in conformity with SEA Rule 15c3-3(f) when the funds are received. This account would be in addition to any other of the broker-dealer's customary Reserve Bank Accounts. (Each underwriting will be deemed to be a single purchase regardless of the number of the broker-dealer's customers purchasing securities pursuant to the underwriting.) The receipt and disbursement of the customer funds must be separately identified on a broker-dealer's records. The credit items may not be netted against any debit items;
2. The amount received per transaction or with respect to a particular customer is equal to at least 25% of the total of the credit items in the most recent Reserve Requirement computation required by SEA Rule 15c3-3(e);
3. If a broker-dealer is required to segregate customer funds pursuant to more than one transaction at any particular time, the funds of each transaction should not be commingled with those of any other transaction; and
4. The broker-dealer has net capital equal to at least \$250,000 at the time of receipt of the customer monies.

(SEC Letter to NYSE, April 25, 1990) (No. 90-6, September 1990)

(h) BUY-IN OF SHORT SECURITY DIFFERENCES

A broker or dealer shall within 45 calendar days after the date of the examination, count, verification and comparison of securities pursuant to § 240.17a-13 or otherwise or to the annual report of financial condition in accordance with § 240.17a-5 or 240.17a-12, buy-in all short security differences which are not resolved during the 45-day period.

/01 Extensions of Time

See paragraph (n) of this section for information regarding time periods and processing of extensions of time.

(SEC Staff to NYSE)

(i) NOTIFICATION IN THE EVENT OF FAILURE TO MAKE A REQUIRED DEPOSIT

If a broker or dealer shall fail to make in its Customer Reserve Bank Account, PAB Reserve Bank Account or special account a deposit, as required by this section, the broker or dealer shall by telegram immediately notify the Commission and the regulatory authority for the broker or dealer, which examines such broker or dealer as to financial responsibility and shall promptly thereafter confirm such notification in writing.

/01 Hindsight Deficiency

If a broker-dealer which is presently in compliance with the cash reserve provisions of the rule, discovers by hindsight that a cash reserve deficiency existed as a result of an error in the determination of a required deposit, the broker-dealer would still be required to make notification to the bodies indicated in the rule. This notification shall be made by telegraphic or other appropriate means (registered letter) promptly after discovery with a representation that the broker-dealer is presently in compliance with the cash reserve provisions of the rule. It is suggested that the notification include an explanation as to the reason for the error and action taken to prevent a recurrence in the future.

(SEC Staff to NYSE) (No. 80-4, March 1980)

(j) TREATMENT OF FREE CREDIT BALANCES

(1) A broker or dealer must not accept or use any free credit balance carried for the account of any customer of the broker or dealer unless such broker or dealer has established adequate procedures pursuant to which each customer for whom a free credit balance is carried will be given or sent, together with or as part of the customer's statement of account, whenever sent but not less frequently than once every three months, a written statement informing the customer of the amount due to the customer by the broker or dealer on the date of the statement, and that the funds are payable on demand of the customer.

(2) A broker or dealer must not convert, invest, or transfer to another account or institution, credit balances held in a customer's account except as provided in paragraphs (j)(2)(i) and (ii) of this section.

(i) A broker or dealer is permitted to invest or transfer to another account or institution, free credit balances in a customer's account only upon a specific order, authorization, or draft from the customer, and only in the manner, and under the terms and conditions, specified in the order, authorization, or draft.

(ii) A broker or dealer is permitted to transfer free credit balances held in a customer's securities account to a product in its Sweep Program or to transfer a customer's interest in one product in a Sweep Program to another product in a Sweep Program, provided:

(A) For an account opened on or after the effective date of this paragraph (j)(2)(ii), the customer gives prior written affirmative consent to having free credit balances in the customer's securities account included in the Sweep Program after being notified:

(1) Of the general terms and conditions of the products available through the Sweep Program; and

(2) That the broker or dealer may change the products available under the Sweep Program.



(j)(2)(ii) TREATMENT OF FREE CREDIT BALANCES

(B) For any account:

(1) The broker or dealer provides the customer with the disclosures and notices regarding the Sweep Program required by each self-regulatory organization of which the broker or dealer is a member;

(2) The broker or dealer provides notice to the customer, as part of the customer's quarterly statement of account, that the balance in the bank deposit account or shares of the money market mutual fund in which the customer has a beneficial interest can be liquidated on the customer's order and the proceeds returned to the securities account or remitted to the customer; and

(3)(i) The broker or dealer provides the customer with written notice at least 30 calendar days before:

(A) Making changes to the terms and conditions of the Sweep Program;

(B) Making changes to the terms and conditions of a product currently available through the Sweep Program;

(C) Changing, adding or deleting products available through the Sweep Program; or

(D) Changing the customer's investment through the Sweep Program from one product to another.

(ii) The notice must describe the new terms and conditions of the Sweep Program or product or the new product, and the options available to the customer if the customer does not accept the new terms and conditions or product.

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SEA Rule 15c3-3(j)(2)(ii)(B)(3)(ii)

(k) EXEMPTIONS

(1) The provisions of this rule shall not be applicable to a broker or dealer meeting all of the following conditions:

(i) The broker's or dealer's transactions as dealer (as principal for its own account) are limited to the purchase, sale and redemption of redeemable securities of registered investment companies or of interests or participations in an insurance company separate account, whether or not registered as an investment company; except that a broker or dealer transacting business as a sole proprietor may also effect occasional transactions in other securities for its own account with or through another registered broker or dealer;

(ii) The broker's or dealer's transactions as broker (agent) are limited to: (a) the sale and redemption of redeemable securities of registered investment companies or of interests or participations in an insurance company separate account, whether or not registered as an investment company; (b) the solicitation of share accounts for savings and loan associations insured by an instrumentality of the United States; and (c) the sale of securities for the account of a customer to obtain funds for immediate reinvestment in redeemable securities of registered investment companies; and

(iii) The broker or dealer promptly transmits all funds and delivers all securities received in connection with its activities as a broker or dealer, and does not otherwise hold funds or securities for, or owe money or securities to, customers.

(iv) Notwithstanding the foregoing, this rule shall not apply to any insurance company which is a registered broker-dealer, and which otherwise meets all of the conditions in paragraphs (k)(1) (i), (ii) and (iii) of this section, solely by reason of its participation in transactions that are a part of the business of insurance, including the purchasing, selling or holding of securities for or on behalf of such company's general and separate accounts.

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(k) EXEMPTIONS (continued)

(2) The provisions of this rule shall not be applicable to a broker or dealer:

(i) Who carries no margin accounts, promptly transmits all customer funds and delivers all securities received in connection with its activities as a broker or dealer, does not otherwise hold funds or securities for, or owe money or securities to, customers and effectuates all financial transactions between the broker or dealer and its customers through one or more bank accounts, each to be designated as “Special Account for the Exclusive Benefit of Customers of (name of the broker or dealer)”; or

/01 “Book-entry” Securities Belonging to Customers

This exemption is not available to a broker-dealer that meets the other standards stipulated in this provision but is accountable to customers for “book-entry” securities (such as Federal Agency securities) carried long in the customers' accounts on the broker-dealer's books of account.

(SEC Letter to A. Webster Dougherty & Co., Inc., June 6, 1980)  
(No. 81-9, December 1981)

/02 Certificates of Deposit - Outstanding Checks

Overnight balances, i.e., the amount of money represented by checks drawn on the (k)(2)(i) account and in the process of collection may under prescribed conditions and with limitations be invested in the (k)(2)(i) account in 14 day certificates of deposit.

The level of such investment is determined by using the 14 day moving average balance of checks issued but not presented to the account for payment, adjusted by known factors based on past experience and any applicable early withdrawal penalties, but in no event to exceed \$1,000,000.

The broker-dealer will at all times keep no less than \$100,000 of its own funds in the account and obtain a line of credit from the bank in which the account is held to ensure payment of presented checks and prevent any checks from being returned. If, for any reason the line of credit is not available, the bank must redeem as many CD's as necessary to honor the checks presented.

Any restrictions, including those in SEA Rule 15c3-3(f), as to the Special Account must pertain also to the CD's in the account.

(SEC Letter to Summit Corporation, April 22, 1986) (No. 88-1, February 1988)

(k)(2)(i) EXEMPTIONS (continued)/03 Money Market Deposit Accounts

The SEC staff has issued a no action letter which permits the use of an interest bearing money market deposit (MMD) account in conjunction with a normal operating account when they are established pursuant to the requirements of this (k)(2)(i) provision. The no action position is taken based on the following:

- Funds will be promptly deposited in and paid out of the operating account;
- The flow of funds will be continuously monitored to assure that there are always sufficient funds in the operating account to pay checks presented for payment;
- From time to time a portion of the overnight balances will be transferred to the MMD account; and
- The bank will agree to pay, if for any reason there are not enough funds in the operating account to pay a check that has been presented for collection, any overdrafts up to the full amount of the aggregate collected balance in the operating account and the MMD account.

Any restrictions included in SEA Rule 15c3-3(f) shall apply to the operating and the MMD accounts.

(SEC Letter to Equitable Financial Companies, September 30, 1988)  
(No. 89-7, June 1989)

/04 Securities Transfer

A broker-dealer that is exempt under SEA Rule 15c3-3(k)(2)(i) may perform certificate transfers for its customer. It may also hold legal transfer items pending receipt of necessary legal documents, provided it promptly completes and forwards the transfer item.

The broker-dealer must act as promptly as practical under the circumstances and any unreasonable delay may result in disqualification for the exemption under SEA Rule 15c3-3(k)(2)(i).

(SEC Letter to Frazee, Olifiers & Co. Inc., March 3, 1973)  
(No. 90-11, December 1990)

(k)(2)(i) EXEMPTIONS (continued)/05 Commission Recapture/Commission Rebate Program of Introducing Brokers

Any introducing broker who rebates a portion of its commission back to its customers either as a cash payment or to a creditor of the customer is required to maintain a minimum net capital requirement of at least \$250,000. It is also considered a carrying firm for purposes of SEA Rule 15c3-3 unless it elects the following method for the handling of the customers' rebates:

- The introducing broker deposits money into a separate 15c3-3 bank account similar to those accounts established under a SEA Rule 15c3-3 (k)(2)(i) exemption and the balance in the bank account at all times must equal or exceed the payables to customers; and
- The firm issues checks from this bank account to pay the customer or the creditor of the customer.

(SEC Staff to NYSE) (No. 02-3, February 2002)

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(k)(2) EXEMPTIONS (continued)

(ii) Who, as an introducing broker or dealer, clears all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer, and who promptly transmits all customer funds and securities to the clearing broker or dealer which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to the requirements of §§ 240.17a-3 and 240.17a-4 of this chapter, as are customarily made and kept by a clearing broker or dealer.

/01 Bank Affiliated Broker-Dealers (BABD)

A BABD that introduces customer accounts can (1) direct transfer of funds from the accounts of its customers at a non-affiliated clearing broker-dealer (CBD) and its affiliated bank, and (2) accept and place securities orders received from its affiliated bank's Trust Department to be settled on a DVP/RVP basis by the CBD and qualify for the (k)(2)(ii) exemption, if:

1. The BABD obtains and preserves as part of its records a written authorization from its CBD and its customers authorizing them to direct transfers of funds from their accounts at affiliated banks;
2. The BABD will have access to the CBD's and its customers' accounts at the bank solely for the purpose of settling the balance owing from any trades the customers have made; and
3. The BABD enters into a written agreement with its affiliated bank in which the affiliated bank agrees to be responsible to the customers or the CBD for any loss of funds resulting from misappropriation, conversions or errors made by the BABD in connection with the settlement of any securities transactions.

(SEC Letter to NASD, July 1, 1986) (No. 88-1, February 1988)

(k)(2)(ii) EXEMPTIONS (continued)

/011 Checks Drawn by Introducing BABD

The BABD may also write checks drawn on an account set up by the CBD to pay customers of the BABD and qualify for the (k)(2)(ii) exemption, if:

1. The check is made payable to the order of the BABD's customer;
2. The bank account is in the name of the CBD;
3. There is a written contract between the CBD and the BABD which explicitly states that the BABD is authorized to draw on the account only as agent for the CBD; and
4. The CBD does not debit free credit balances or other credit balances by the amount of checks drawn on such account until the checks clear.

(SEC Letter to NASD, July 1, 1986) (No. 88-1, February 1988)

/012 Receipt of Securities by Introducing BABD

An introducing BABD that solicits the receipt of securities so it can deliver them directly to the customers or the CBD, as appropriate, for the settlement of securities transactions and promptly transmits all customers' securities received to the appropriate party can continue to qualify for the (k)(2)(ii) exemption. "Promptly transmit" means by noon of the next business day. Appropriate records under SEA Rule 17a-3 relating to the receipt and delivery of securities must be maintained.

(SEC Letter to NASD, July 1, 1986) (No. 88-1, February 1988)

/013 Soliciting Receipt of Funds and Securities

An introducing BABD that solicits the receipt of customers' funds and securities to deliver the funds and securities directly to the customer or CBD, as appropriate, will be considered a fully computing broker-dealer and is not exempt from the provisions of Rule 15c3-3. Appropriate books and records required by SEA Rules 17a-3 and 17a-4 must be maintained and preserved.

(SEC Letter to NASD, July 1, 1986) (No. 88-1, February 1988)



(k)(2)(ii) EXEMPTIONS (continued)

/014 Sale of Registered Investment Company Shares

An introducing BABD that sells registered investment company shares on a wire order basis may not use the exemption provided by (k)(2)(ii) as to its sales of shares of investment companies. The exemption for this activity is provided by (k)(2)(i) which requires that books and records be maintained and preserved as required by SEA Rules 17a-3 and 17a-4.

In effect, introducing activity is exempt under (k)(2)(ii) and sale of investment company shares is exempt under (k)(2)(i).

(SEC Letter to NASD, July 1, 1986) (No. 88-1, February 1988)

/015 Definition of “Promptly Transmit”

The term “promptly transmit” as used in SEA Rules 15c3-3 (k)(1) and (k)(2)(i) requires a broker-dealer to transmit customer funds and securities by noon of the next business day after receipt or by noon of the next business day following settlement date, whichever is later.

A broker-dealer operating pursuant to the (k)(2)(ii) exemptive provision must transmit customer funds and securities by noon of the next business day following receipt.

(SEC Staff to NYSE) (No. 95-3, May 1995)

/016 Self-Clearing of Commodities Transactions

A broker-dealer may self-clear customers’ commodities transactions while operating pursuant to the (k)(2)(ii) exemptive provision of SEA Rule 15c3-3.

(SEC Staff to NYSE) (No. 95-3, May 1995)

(k)(2)(ii) EXEMPTIONS (continued)/017 Checks Written By Introducing Firms on Behalf of the Clearing Firm

A (k)(2)(ii) broker-dealer may write checks for its customers drawn on a bank account of its clearing firm if:

1. The bank account is in the name of the clearing firm;
2. There is a written agreement between the carrying firm and the introducing broker-dealer stating that the introducing firm may draw upon the account only as agent; and
3. The customer's account is debited the amount of the check when the check is issued and the outstanding checks payable to the customers of the correspondents are included in the clearing firm's 15c3-3 Reserve Formula credit balances.

(SEC Staff to NYSE) (No. 96-4, November 1996)

(3) Upon written application by a broker or dealer, the Commission may exempt such broker or dealer from the provisions of this section, either unconditionally or on specified terms and conditions, if the Commission finds that the broker or dealer has established safeguards for the protection of funds and securities of customers comparable with those provided for by this rule and that it is not necessary in the public interest or for the protection of investors to subject the particular broker or dealer to the provisions of this section.

**(NEXT PAGE IS 2531)**

(1) DELIVERY OF SECURITIES

Nothing stated in this section shall be construed as affecting the absolute right of a customer of a broker or dealer to receive in the course of normal business operations following demand made on the broker or dealer, the physical delivery of certificates for:

- (1) Fully-paid securities to which he is entitled, and,
- (2) Margin securities upon full payment by such customer to the broker or dealer of the customer's indebtedness to the broker or dealer; and, subject to the right of the broker or dealer under Regulation T (12 CFR 220) to retain collateral for its own protection beyond the requirements of Regulation T, excess margin securities not reasonably required to collateralize such customer's indebtedness to the broker or dealer.

**(NEXT PAGE IS 2551)**

(m) COMPLETION OF SELL ORDERS ON BEHALF OF CUSTOMERS

If a broker or dealer executes a sell order of a customer (other than an order to execute a sale of securities which the seller does not own) and if for any reason whatever the broker or dealer has not obtained possession of the securities from the customer within 10 business days after the settlement date, the broker or dealer shall immediately thereafter close the transaction with the customer by purchasing securities of like kind and quantity: Provided, however, the term “customer” for the purpose of this paragraph (m) shall not include a broker or dealer who maintains an omnibus credit account with another broker or dealer in compliance with section 7(f) of Regulation T (12 CFR 220.7(f)).

Note to paragraph (m): See 38 FR 12103, May 9, 1973 for an order suspending indefinitely the operation of paragraph (m) as to sell orders for exempted securities (e.g., U.S. Government and municipal obligations).

/01 Short Against the Box

A customer selling a security short against the box is considered to be selling securities he does not own.

(SEC Release 34-9922, January 2, 1973)

/02 Government Securities

The buy-in provision applies to all U.S. Government securities which have not been received from the customer within 30 calendar days after settlement date except mortgage backed securities, which must be bought in within 60 calendar days if not received from the customer pursuant to the requirements of the Treasury Rule.

(U.S. Treasury Department Release, February 28, 1994)  
(SEC Staff to NYSE) (No. 95-3, May 1995)

/03 Exempt securities

Debt obligations of the World Bank, the Asian Development Bank and the Inter-American Development Bank are treated as exempt securities for purposes of SEA Rule 15c3-3(m) but are not considered qualified securities for use in the Reserve Bank Account.

(SEC Staff to NYSE)

(m) COMPLETION OF SELL ORDERS ON BEHALF OF CUSTOMERS (continued)

/04 Dividend Claims Against Customers

Short positions in customer accounts arising from dividends received directly by customers upon which the broker/dealer has a claim are sales related items and therefore SEA Rule 15c3-3(m) applies. In such circumstances the buy-in period required by paragraph (m) shall be 10 business days from the payable date, unless a ten business day period after settlement date would result in the buy-in being required at a later date. (Note: Extensions of time under paragraph (n) apply.)

(SEC to Merrill Lynch, Pierce, Fenner & Smith Inc., December 17, 1973)  
(No. 78-1, May 1978)

/05 Sale of Securities to be Received Under Employee Stock Option Plan

When a broker-dealer exercises an employee stock option for a customer, it must have acknowledgement from the issuer that a freely transferable, readily saleable and marketable security in negotiable form will be promptly delivered to the broker-dealer within 13 business days after exercise notice is given to the issuer (when acknowledgement is given by telephone, the condition should be restated in the transmittal to the issuer).

The exercise shall be subject to the following:

- When the security has been sold and has not been received from the issuer within 13 business days following trade date of the sale, it is subject to the buy-in provision of this paragraph (m) unless an extension of time is requested and approved under paragraph (n) of this rule.

(SEC Staff to NYSE) (No. 88-20, November 1988)

(m) COMPLETION OF SELL ORDERS ON BEHALF OF CUSTOMERS (continued)/06 Foreign Issued, Foreign Settled Securities

Broker-dealers may, in lieu of the 10 day buy-in requirement for foreign issued, foreign settled securities apply alternative procedures (which are also applicable to fails to receive over 30 calendar days old of foreign issued, foreign settled securities).

The alternative procedure stipulates:

1. The filing of a written notice with the designated examining authority of the intention to apply the alternative procedure;
2. The taking of proprietary haircut charges pursuant to SEA Rule 15c3-1 on securities due from customers on long sale transactions 30 days after settlement date, or 30 days from trade date where settlement is on a seller's option basis rather than on a customary settlement cycle; and
3. The maintenance and preservation of certain detailed records concerning the number and contractual value of contracts and transactions in foreign issued, foreign settled securities.

See interpretation 15c3-3(d)(2)/01 for complete details.

(SEC Letter to SIA, June 16, 1988) (No. 88-20, November 1988)

**(NEXT PAGE IS 2561)**

(n) EXTENSION OF TIME

If a registered national securities exchange or a registered national securities association is satisfied that a broker or dealer is acting in good faith in making the application and that exceptional circumstances warrant such action, such exchange or association, on application of the broker or dealer, may extend any period specified in paragraphs (d)(2) through (4), (h) and (m) of this section, relating to the requirement that such broker or dealer take action within a designated period of time to buy-in a security, for one or more limited periods commensurate with the circumstances. Each such exchange or association shall make and preserve for a period of not less than 3 years a record of each extension granted pursuant to paragraph (n) of this section which shall contain a summary of the justification for the granting of the extension.

/01 Extensions under (d)(2), (d)(3) and (h)

The Exchange will consider extension requests in accordance with paragraphs (d)(2), (d)(3) and (h) on all securities regardless of where they are listed or traded. Requests are to be submitted to the Exchange electronically, either by the Exchange's PC (Personal Computer) System or directly from the member firm's computer to the Exchange's computer (CPU to CPU).

/02 Extensions under (m)

The Exchange will consider extension requests in accordance with subparagraph (m), "customer sales," on all securities regardless of where they are listed or traded. Requests are to be submitted to the Exchange electronically, either by the Exchange's PC (Personal Computer) System or directly from the member firm's computer to the Exchange's computer (CPU to CPU).

/03 Extension request authorization

All member organizations applying for extensions to the Exchange are required to have an officer, partner or an authorized person representing the firm, review all requests before submitting them to the Exchange. In accordance with NYSE Rule 342, "Offices - Approval, Supervision and Control", the firm representative should insure that each request is in compliance with SEA Rule 15c3-3 and that the reason for the request is based on extenuating circumstances.

(n) EXTENSION OF TIME (continued)/04 Date Extensions Due

Member organizations should only recognize Exchange holidays in determining the due date for extensions of time. This procedure will eliminate the confusion created due to bank holidays on which the Exchange is open for business.

In order to allow the Exchange's computerized extension system to properly process extensions permitted under SEA Rule 15c-3 all requests must be received on the due dates listed below. Adherence to this procedure will reduce the number of denied requests for improper dates and establish uniformity within member organizations.

<u>Subparagraph</u>		<u>Date Due</u>
(d)(2)	-	on 30th calendar day after settlement date
(d)(3)	-	on 45th calendar day after settlement date
(h)	-	on 45th calendar day after settlement date
(m)	-	on 10th business day after settlement date

(SEC Staff to FINRA) (FINRA Regulatory Notice 18-03)

/05 Buy-Ins

SEA Rule 15c3-3 requires member organizations to take prompt steps to obtain physical possession or control of securities pursuant to paragraphs (d)(2), (d)(3), (h) and (m) through a buy-in procedure or otherwise. The Rule, under paragraph (n), further provides for extensions of time when the Exchange is satisfied that the member organization is acting in good faith in making an application and has determined that exceptional circumstances warrant such action.

The fact that a buy-in has been instituted does not eliminate the need for an extension of time on the due date if possession and control is still required. Even if a member organization has been granted an extension of time, it may be bought-in under NYSE Rules 282 and 284 by the member organization with which the contract is open.

/06 Expired extensions

Member organizations are required to promptly close the transaction by purchasing securities of like quantity or other appropriate action upon the expiration of extension periods, when the security has not been received or an additional extension of time obtained, if appropriate.

SEA Rule 15c3-3(n)/06



(n) EXTENSION OF TIME (continued)/07 Municipal Securities Under Paragraph (d)

Municipal securities are subject to the provisions of paragraph (d).

(SEC Staff to NASD)

/08 Extensions Under Subparagraph (d)(2) - Fail to Receive

The specific information required for filing extension requests under subparagraph (d)(2), “fail to receive,” are as follows:

Name of the security and CUSIP No.  
 Total number of shares, bond, units, etc.  
 Total contract value  
 Settlement date  
 Due date - (always 30 calendar days after settlement date)  
 Reason for request  
 Days requested (maximum 14)  
 Broker-dealer failing to deliver

(NYSE Information Memo 94-30, July 29, 1994)

/09 Extensions Under Subparagraph (d)(3) - Dividends, Stock Splits

The specific information required for filing extension requests under subparagraph (d)(3), “dividends, stock splits and similar distributions receivable,” are as follows:

Name of security and CUSIP No.  
 Total number of shares, bonds, units, etc.  
 Total market value  
 Payable date  
 Due date - (always 45 calendar days after settlement date)  
 Reason for request  
 Days requested (maximum 14)  
 Party from whom due

(NYSE Information Memo 94-30, July 29, 1994)

(n) EXTENSION OF TIME (continued)/10 New Deficits Under Subparagraphs (d)(2) and (d)(3)

Under subparagraphs (d)(2) and (d)(3) no extensions of time are required if on the due date (30th (fails to receive) and 45th (dividends, stock splits) calendar day after settlement, respectively) the security position is not in deficit. However, if the security position goes into deficit after the due date, then an extension of time must be requested on the date the deficit occurred. Such an extension request must indicate that a deficit has now occurred by marking the request “new deficit”.

/11 Extensions Under Paragraph (h) - Short Security Difference

The specific information required for filing extension requests under paragraph (h), “short security differences”, are as follows:

Name of security and CUSIP No.  
 Total number of shares, bonds, units, etc.  
 Total market value  
 Date of discovery pursuant to Rules 17a-5 or 17a-13  
 Due date - (always 45 calendar days after discovery)  
 Days requested

Note: Contact the Credit Regulation Section of the Exchange prior to submitting any request under paragraph (h) at (212)656-3295.

(NYSE Information Memo 94-30, July 29, 1994)

(n) EXTENSION OF TIME (continued)/12 Reason for Extension Under Subparagraphs (d)(2), (d)(3) and Paragraph (h)

A list of permitted reasons and their code numbers follows.

The list of reasons cited below does not constitute a finding by the Exchange that the reason accompanying a request represents an “exceptional circumstance.” It is the responsibility of the member organization to determine that the reason cited actually applied and that the request is bona fide.

- 70 Security already in transfer by the delivering party.
- 71 Security already in the mail from the delivering party.
- 72 Buy-in notice has been issued, but additional time needed before execution of buy-in.
- 73 Buy-in notice issued but unable to buy-in due to no market or security in short supply.
- 74 Security held at foreign depository and delivering party has already advised foreign depository to transfer or issue certificate to you.
- 75 Security involved in a merger, exchange or reorganization and the issuer has not completed re-registration to delivering party.
- 76 Security is mutual fund and issuer has not issued certificate to delivering party.
- 77 A self-regulatory organization has halted trading in the security or prohibited the execution of buy-in notices.
- 78 Delivering party has filed the necessary documents with the issuer to replace a lost certificate.
- 80 Any other exceptional circumstances not covered by designated codes. (Use of this code requires prior approval from the Exchange.)

(n) EXTENSION OF TIME (continued)/121 Limits by Reason and Time Period for Subparagraphs (d)(2), (d)(3) and Paragraph (h)

<u>Reason</u>	<u>Code</u>	<u># Days Permitted</u>	<u>Limit Per Code</u>	<u>Special Remarks</u>
Security in transfer	70	14	2	Final on second
Security in mail	71	7	1	Final
Buy-in issued	72	14	2	Final on second
Unable to buy-in	73	14	2	Final on second
Security at foreign depository	74	14	2	Final on second
Merger, exchange or reorganization	75	14	2	Final on second
Mutual fund	76	14	2	Final on second
SRO halted trading or buy-in privilege	77	14	5	Final on fifth
Lost certificate	78	30	5	Final on fifth
Other	80	14	None	Requires NYSE approval

Note: When the permitted extension limit has been reached, member organizations must buy-in the security. If the member organization is unable to execute a buy-in due to no market, security in short supply or SRO has prohibited, the member organization must maintain record of action taken, reason not bought-in, and continue to attempt to execute the buy-in as soon as practicable.

(n) EXTENSION OF TIME (continued)/13 Reason for Extension Under Paragraph (m)

A list of reasons and their code numbers follows.

The inclusion of a list of reasons is not itself a finding by the Exchange that these reasons represent an “exceptional circumstance.” It is the responsibility of each firm to determine that the reason cited actually applied and that the request is bona fide. See interpretation 15c3-3(n)/133 for limits.

- 40 Security has been placed in transfer by a bank for the customer in order to obtain certificate(s) for the amount of shares sold.
- 41 Customer died on or after trade date. Awaiting appointment of executor or administrator of deceased customer’s account.
- 42 Broker failed in attempting to buy-in because security is in short supply. Broker has open order to buy-in and trying to complete transaction. [Requires that an open order be maintained until the buy-in of the position is accomplished or otherwise resolved.]
- 43 Security dividend sold before payable date or short position created in customer account due to dividend received directly by customer upon which broker has a claim. Requests for extensions under this code should be made on the tenth (10th) business day after settlement date. The payable date is deemed to be the trade date. If a dividend claim is processed against an account after payable date, then the date the charge is made to the account will be trade date and an extension request, if necessary, would be due ten (10) business days after settlement date.
- 44 Security is held in a foreign depository where settlement procedures or delivery terms are incompatible with the Rule.
- 45 Security is in for exchange as a result of a merger, consolidation, transfer of assets, exchange offer, recapitalization or other similar transaction or conversion. (Reason established to cover situations where an exchange of securities or similar event is being undertaken by customer or delivering agent to accomplish receipt of the security sold.)

(n) EXTENSION OF TIME (continued)/13 Reason for Extension Under Paragraph (m) (continued)

- 46 Certificate delayed in mail during Christmas season or due to a postal strike. (Exchange staff will specifically establish the time periods when this reason may be used.)
- 47 Customer's account coming from another broker and Exchange Rule 412 being complied with. (Available when the transfer of an account between member organizations is being accomplished in accordance with Exchange Rule 412 and fails, if necessary, will be created to complete the transfer.)
- 48 Customer has been unexpectedly hospitalized or taken seriously ill and is incapable of delivering security. (Illness or hospitalization of customer should be of a nature that makes it impossible for client to deliver security. Condition must occur after the transaction was made. If condition existed prior to trade date, then reason may not be used.)
- 49 Lost certificate - Broker lost and is replacing or customer lost and has already commenced proceedings for replacement. If customer lost, broker must obtain proof customer is replacing by obtaining copy of any required bond or other appropriate proof.
- 50 Any other exceptional circumstances not covered by designated codes. (Use of this Code for reasons represented by another code will result in an automatic denial of the extension request.)
- 51 Acts of God or other abnormal conditions. (Reason may only be used when Exchange staff authorizes it and then solely for the time period and condition specified by staff.)
- 52 Foreign security sold in a foreign securities market based on foreign settlement procedures. (Available only for sales of foreign securities in a foreign market and the security has not been received within ten (10) business days after settlement date as established by the foreign market.)

(SEC Staff to FINRA) (FINRA Regulatory Notice 18-03)

(n) EXTENSION OF TIME (continued)/131 Extensions on Foreign Securities - Code 52

Unlike other reason codes covering sale transactions, “Code 52” will require member organizations to use the appropriate settlement date on the extension form rather than the trade date. The Exchange’s computerized extension system has been programmed to compute ten (10) business days from settlement date to extension request date to insure compliance with the SEA rule. Since “Code 52” will be used to represent various reasons for an extension request, member organizations will be required to maintain a written record of each request granted/denied to reflect the facts regarding the specific circumstances that generated the extension request.

Member organizations may, in lieu of the ten (10) day buy-in requirements for foreign securities sold in a foreign securities market, apply the alternative procedures permitted under SEA Rule 15c3-3(d)(2). These procedures permit member organizations to treat foreign settled securities similar to fails to receive over thirty (30) calendar days old.

/132 Nine Extension Limit

A customer will not ordinarily be granted further extensions after accumulating nine extensions within a 12 month period, excluding requests for certain reasons clearly beyond the control of the customer. Upon receipt of a ninth extension request during a 12 month period, the submitting firm, and each other organization which previously requested one of the nine extensions for such customer, will receive notification that the customer will not be granted any further extensions until sufficient time has elapsed and the customer is again eligible under the guidelines.

The Exchange’s computerized extension system generates Report 5, “Final on Account - SEC,” as a means of notifying broker/dealers effected by this restriction. Report 5, under the column “Until Date,” indicates the date on which the customer’s restriction will be removed.

This information eliminates the need for broker/dealers to research an account to determine the time period a restriction will be in effect.

Further, the computerized system is capable of advancing the “until date” if a special extension is granted or if a new firm should apply for an extension on behalf of the same customer. Accordingly, the “until date” will always represent a period of one year from the date of the ninth most recent extension charged to that customer.

(n) EXTENSION OF TIME (continued)/133 Limits by Reasons and Time Periods

	<u>Reason Code</u>	<u>No. Days Permitted</u>	<u>Count Toward 9-Limit</u>	<u>Final on Transac.</u>	<u>Limit Per Code</u>	<u>Special Remarks</u>
<u>SEA Rule 15c3-3</u>						
In Transfer	40	14	NO	YES	2	Final on Second
Death of Seller	41	14	YES	YES	2	Final on Second
Can't BI-Security in Short						
Supply	42	14	NO	YES	5	Final on Fifth
Dividend Sold Before Payable						
Date	43	14	YES	YES	2	Final on Second
Still in Foreign Dep.	44	14	YES	YES	2	Final on Second
Sec. Exchange or Merger	45	14	YES	YES	2	Final on Second
Strike or X'mas	46	14	NO	NO	0	Only Used Upon NYSE Approval
Coming From Another Broker Under 412	47	14	NO	YES	2	Final on Second
Customer						
Hospitalized	48	14	YES	YES	2	Final on Second
Lost Certificate	49	30	NO	NO	5	Final on Fifth
Other	50	14	NO	NO	0	Manually Appr.
Acts of God	51	14	NO	NO	0	Only Used Upon NYSE Approval
Foreign Security Sold Under Foreign Settlement Procedures	52	14	NO	YES	2	Final on Second

Note: Customers are only permitted a total of nine (9) granted (chargeable) SEC extensions in any twelve month period. Any request for an extension or re-extension (multi) under a chargeable code that is received once a customer reaches limit of nine (9) extensions will be denied.

**(NEXT PAGE IS 2581)**

SEA Rule 15c3-3(n)/133



(o) SECURITY FUTURES PRODUCTS

(1) WHERE SECURITY FUTURES PRODUCTS SHALL BE HELD

A broker or dealer registered with the Commission pursuant to section 15(b)(1) of the Act (15 U.S.C. 78o(b)(1)) that is also a futures commission merchant registered with the Commodity Futures Trading Commission pursuant to section 4f(a)(1) of the Commodity Exchange Act (7 U.S.C. 6f(a)(1)):

(i) Shall hold a customer's security futures products in either a securities account or a futures account; and

(ii) Shall establish written policies or procedures for determining whether customer security futures products will be placed in a securities account or a futures account and, if applicable, the process by which a customer may elect the type or types of account in which security futures products will be held (including the procedure to be followed if a customer fails to make an election of account type).

(2) DISCLOSURE AND RECORD REQUIREMENTS

(i) Except as provided in paragraph (o)(2)(ii), before a broker or dealer registered with the Commission pursuant to section 15(b)(1) of the Act (15 U.S.C. 78o(b)(1)) accepts the first order for a security futures product from or on behalf of a customer, the broker or dealer shall furnish the customer with a disclosure document containing the following information:

(A) A description of the protections provided by the requirements set forth under this section and SIPA applicable to a securities account;

(B) A description of the protections provided by the requirements set forth under section 4d of the Commodity Exchange Act (7 U.S.C. 6d) applicable to a futures account;

(C) A statement indicating whether the customer's security futures products will be held in a securities account or a futures account, or whether the firm permits customers to make or change an election of account type; and

(D) A statement that, with respect to holding the customer's security futures products in a securities account or a futures account, the alternative regulatory scheme is not available to the customer with relation to that account.

(ii) Where a customer account containing an open security futures product position is transferred to a broker or dealer registered with the Commission pursuant to section 15(b)(1) of the Act (15 U.S.C. 78o(b)(1)), that broker or dealer may instead provide the statements described in paragraphs (o)(2)(i)(C) and (o)(2)(i)(D) of this section no later than ten business days after the date the account is received.

SEA Rule 15c3-3(o)(2)(ii)

(o) SECURITY FUTURES PRODUCTS (continued)

(3) CHANGES IN ACCOUNT TYPE

A broker or dealer registered with the Commission pursuant to section 15(b)(1) of the Act (15 U.S.C. 78o(b)(1)) that is also a futures commission merchant registered pursuant to section 4f(a)(1) of the Commodity Exchange Act (7 U.S.C. 6f(a)(1)) may change the type of account in which a customer's security futures products will be held; provided that:

- (i) The broker or dealer creates a record of each change in account type, including the name of the customer, the account number, the date the broker or dealer received the customer's request to change the account type, if applicable, and the date the change in account type became effective; and
  - (ii) The broker or dealer, at least ten days before the customer's account type is changed;
    - (A) Notifies the customer in writing of the date that the change will become effective, and
    - (B) Provides the customer with the disclosures described in paragraph (o)(2)(i) of this section.

**(NEXT PAGE IS 2601)**

SEA Rule 15c3-3(o)(3)(ii)(B)

FORMULA FOR DETERMINATION OF CUSTOMER AND PAB ACCOUNT  
RESERVE REQUIREMENTS OF BROKERS AND DEALERS UNDER § 240.15c3-3

	<u>CREDITS</u>	<u>DEBITS</u>
1. Free credit balances and other credit balances in customers' security accounts. (See Note A)	\$ XXX	
2. Monies borrowed collateralized by securities carried for the accounts of customers. (See Note B)	XXX	
3. Monies payable against customers' securities loaned. (See Note C)	XXX	
4. Customers' securities failed to receive. (See Note D)	XXX	
5. Credit balances in firm accounts which are attributable to principal sales to customers.	XXX	
6. Market value of stock dividends, stock splits and similar distributions receivable outstanding over 30 calendar days.	XXX	
7. Market value of short security count differences over 30 calendar days old.	XXX	
8. Market value of short securities and credits (not to be offset by longs or by debits) in all suspense accounts over 30 calendar days.	XXX	
9. Market value of securities which are in transfer in excess of 40 calendar days and have not been confirmed to be in transfer by the transfer agent or the issuer during the 40 days.	XXX	

SEA Rule 15c3-3(Exhibit A)

FORMULA FOR DETERMINATION OF CUSTOMER AND PAB ACCOUNT  
RESERVE REQUIREMENTS OF BROKERS AND DEALERS UNDER § 240.15c3-3

	<u>CREDITS</u>	<u>DEBITS</u>
10. Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection. (See Note E)		\$ XXX
11. Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver.		XXX
12. Failed to deliver of customers' securities not older than 30 calendar days.		XXX
13. Margin required and on deposit with the Options Clearing Corporation for all option contracts written or purchased in customer accounts. (See Note F)		XXX
14. Margin required and on deposit with a clearing agency registered with the Commission under section 17A of the Act (15 U.S.C. 78q-1) or a derivatives clearing organization registered with the Commodity Futures Trading Commission under section 5b of the Commodity Exchange Act (7 U.S.C. 7a-1) related to the following types of positions written, purchased or sold in customer accounts: (1) security futures products and (2) futures contracts (and options thereon) carried in a securities account pursuant to an SRO portfolio margining rule. (See Note G)		XXX
TOTAL CREDITS	<u>\$ XXX</u>	
TOTAL DEBITS		<u>\$ XXX</u>
15. Excess of total credits (sum of items 1-9) over total debits (sum of items 10-14) required to be on deposit in the "Reserve Bank Account" (§ 240.15c3-3(e)). If the computation is made monthly as permitted by this section, the deposit must be not less than 105% of the excess of total credits over total debits.		<u>\$XXX</u>

SEA Rule 15c3-3(Exhibit A)

NOTES REGARDING THE CUSTOMER RESERVE BANK ACCOUNT COMPUTATIONNote A

Item 1 must include all outstanding drafts payable to customers which have been applied against free credit balances or other credit balances and must also include checks drawn in excess of bank balances per the records of the broker or dealer.

Note B

Item 2 must include the amount of options-related or security futures product-related Letters of Credit obtained by a member of a registered clearing agency or a derivatives clearing organization which are collateralized by customers' securities, to the extent of the member's margin requirement at the registered clearing agency or derivatives clearing organization. Item 2 must also include the amount of Letters of Credit which are collateralized by customers' securities and related to other futures contracts (and options thereon) carried in a securities account pursuant to an SRO portfolio margining rule.

Note C

Item 3 must include in addition to monies payable against customers' securities loaned the amount by which the market value of securities loaned exceeds the collateral value received from the lending of such securities.

Note D

Item 4 must include in addition to customers' securities failed to receive the amount by which the market value of securities failed to receive and outstanding more than thirty (30) calendar days exceeds their contract value.

Note E

(1) Debit balances in margin accounts must be reduced by the amount by which a specific security (other than an exempted security) which is collateral for margin accounts exceeds in aggregate value 15 percent of the aggregate value of all securities which collateralize all margin accounts receivable; provided, however, the required reduction must not be in excess of the amounts of the debit balance required to be excluded because of this concentration rule. A specified security is deemed to be collateral for a margin account only to the extent it represents in value not more than 140 percent of the customer debit balance in a margin account.

(2) Debit balances in special omnibus accounts, maintained in compliance with the requirements of Section 7(f) of Regulation T (12 CFR 220.7(f)) or similar accounts carried on behalf of another broker or dealer, must be reduced by any deficits in such accounts (or if a credit, such credit must be increased) less any calls for margin, mark to the market, or other required deposits which are outstanding 5 business days or less.

SEA Rule 15c3-3(Exhibit A - Note E(2))

NOTES REGARDING THE CUSTOMER RESERVE BANK ACCOUNT COMPUTATION  
(continued)

Note E (continued)

(3) Debit balances in customers' cash and margin accounts included in the formula under Item 10 must be reduced by an amount equal to 1 percent of their aggregate value.

(4) Debit balances in cash and margin accounts of household members and other persons related to principals of a broker or dealer and debit balances in cash and margin accounts of affiliated persons of a broker or dealer must be excluded from the Reserve Formula, unless the broker or dealer can demonstrate that such debit balances are directly related to credit items in the formula.

/01 Determination of the Includible Amount of an Affiliated Account's Debit Balance in the Reserve Formula

A broker-dealer may utilize its reserve formula allocation to determine the includible amount of an affiliated account's debit balance that is related to a credit item in the reserve formula.

The broker-dealer's allocation system must be able to determine any long security position underlying an affiliated account's debit balance that allocates to a short security position underlying the related credit item in the reserve formula.

Credit items that have been included in the reserve formula, which may be considered as relating to an affiliated account's debit balance, are limited to those related to bank loan, securities loan, fail to receive, customer short, proprietary short, PAB short and non-customer short.

Each credit item identified as relating to an affiliated account's debit balance must have a related credit balance which is included in the reserve formula, in order for the affiliated account's debit balance to be includible in the reserve formula.

For purposes of this interpretation, the term "affiliated account" refers to cash and margin accounts of household members and other persons related to principals of a broker-dealer, as well as cash and margin accounts of affiliated persons of a broker-dealer.

(SEC Staff to NYSE) (No. 07-4, April 2007)  
(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

NOTES REGARDING THE CUSTOMER RESERVE BANK ACCOUNT COMPUTATION  
(continued)

Note E (continued)

(5) Debit balances in margin accounts (other than omnibus accounts) must be reduced by the amount by which any single customer's debit balance exceeds 25% (to the extent such amount is greater than \$50,000) of the broker-dealer's tentative net capital (i.e., net capital prior to securities haircuts) unless the broker or dealer can demonstrate that the debit balance is directly related to credit items in the Reserve Formula. Related accounts (e.g., the separate accounts of an individual, accounts under common control or subject to cross guarantees) will be deemed to be a single customer's accounts for purposes of this provision.

If the registered national securities exchange or the registered national securities association having responsibility for examining the broker or dealer ("designated examining authority") is satisfied, after taking into account the circumstances of the concentrated account including the quality, diversity, and marketability of the collateral securing the debit balances or margin accounts subject to this provision, that the concentration of debit balances is appropriate, then such designated examining authority may grant a partial or plenary exception from this provision. The debit balance may be included in the reserve formula computation for five business days from the day the request is made.

/01 Determination of the Includible Amount of a Customer's Concentrated Margin Debit Balance in the Reserve Formula

A broker-dealer may utilize its reserve formula allocation to determine the includible amount of a customer's concentrated margin debit balance that is related to a credit item in the reserve formula.

The broker-dealer's allocation system must be able to determine any long security position underlying a customer's concentrated margin debit balance that allocates to a short security position underlying the related credit item in the reserve formula.

Credit items that have been included in the reserve formula, which may be considered as relating to a customer's concentrated margin debit balance, are limited to those related to bank loan, securities loan, fail to receive, customer short, proprietary short, PAB short and non-customer short.

Each credit item identified as relating to a customer's concentrated margin debit balance must have a related credit balance which is included in the reserve formula, in order for the customer's concentrated margin debit balance to be includible in the reserve formula.

(SEC Staff to NYSE) (No. 07-4, April 2007)  
(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

SEA Rule 15c3-3(Exhibit A - Note E(5))/01

NOTES REGARDING THE CUSTOMER RESERVE BANK ACCOUNT COMPUTATION  
(continued)

Note E (continued)

(6) Debit balances in joint accounts, custodian accounts, participation in hedge funds or limited partnerships or similar type accounts or arrangements that include both assets of a person or persons who would be excluded from the definition of customer (“noncustomer”) and assets of a person or persons who would be included in the definition of customer must be included in the Reserve Formula in the following manner: if the percentage ownership of the non-customer is less than 5 percent then the entire debit balance shall be included in the formula; if such percentage ownership is between 5 percent and 50 percent then the portion of the debit balance attributable to the non-customer must be excluded from the formula unless the broker or dealer can demonstrate that the debit balance is directly related to credit items in the formula; or if such percentage ownership is greater than 50 percent, then the entire debit balance must be excluded from the formula unless the broker or dealer can demonstrate that the debit balance is directly related to credit items in the formula.

/01 Netting of Same Customer’s Balances – Rescinded (No. 04-3, June 2004)

/011 Netting of Same Customer’s Balances

A short sale credit balance, other than a balance resulting from an open short versus the box position, may not be used for netting purposes with a debit balance with the same customer in arriving at the excludable debit balance portion from the reserve formula pursuant to Notes E(4), E(5), and E(6).

(SEC Staff to NYSE) (No. 04-3, June 2004)

SEA Rule 15c3-3(Exhibit A - Note E(6))/011



NOTES REGARDING THE CUSTOMER RESERVE BANK ACCOUNT COMPUTATION  
(continued)

Note E(6) (continued)

/02 Determination of the Includible Amount of a Non-Customer's Debit Balance Portion in a Joint Account with a Customer in the Reserve Formula

A broker-dealer may utilize its reserve formula allocation to determine the includible amount of a non-customer's debit balance portion in a joint account with a customer that is related to a credit item in the reserve formula.

The broker-dealer's allocation system must be able to determine any long security position underlying a non-customer's debit balance portion in a joint account with a customer that allocates to a short security position underlying the related credit item in the reserve formula.

Credit items that have been included in the reserve formula, which may be considered as relating to a non-customer's debit balance portion in a joint account with a customer, are limited to those related to bank loan, securities loan, fail to receive, customer short, proprietary short, PAB short and non-customer short.

Each credit item identified as relating to a non-customer's debit balance portion in a joint account with a customer must have a related credit balance which is included in the reserve formula, in order for the non-customer's debit balance portion in a joint account with a customer to be includible in the reserve formula.

For purposes of this interpretation, the term "joint account" refers to joint accounts, custodian accounts, participation in hedge funds or limited partnerships or similar type accounts or arrangements between a "non-customer" and a "customer", as defined under SEA Rule 15c3-3(a)(1).

(SEC Staff to NYSE) (No. 07-4, April 2007)  
(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

Note F

Item 13 must include the amount of margin required and on deposit with the Options Clearing Corporation to the extent such margin is represented by cash, proprietary qualified securities and letters of credit collateralized by customers' securities.

SEA Rule 15c3-3(Exhibit A - Note F)

NOTES REGARDING THE CUSTOMER RESERVE BANK ACCOUNT COMPUTATION  
(continued)

Note G

(a) Item 14 must include the amount of margin required and on deposit with a clearing agency registered with the Commission under section 17A of the Act (15 U.S.C. 78q-1) or a derivatives clearing organization registered with the Commodity Futures Trading Commission under section 5b of the Commodity Exchange Act (7 U.S.C. 7a-1) for customer accounts to the extent that the margin is represented by cash, proprietary qualified securities, and letters of credit collateralized by customers' securities.

/01 Customer Security Accounts Holding Security Futures Products

The provisions of Note G are only applicable to security futures products written, purchased or sold in customer security accounts.

(SEC Staff to NYSE) (No. 05-2, January 2005)

(b) Item 14 will apply only if the broker or dealer has the margin related to security futures products, or futures (and options thereon) carried in a securities account pursuant to an approved SRO portfolio margining program on deposit with:

(1) A registered clearing agency or derivatives clearing organization that:

(i) Maintains security deposits from clearing members in connection with regulated options or futures transactions and assessment power over member firms that equal a combined total of at least \$2 billion, at least \$500 million of which must be in the form of security deposits. For the purposes of this Note G, the term "security deposits" refers to a general fund, other than margin deposits or their equivalent, that consists of cash or securities held by a registered clearing agency or derivative clearing organization; or

(ii) Maintains at least \$3 billion in margin deposits; or

(iii) Does not meet the requirements of paragraphs (b)(1)(i) through (b)(1)(ii) of this Note G, if the Commission has determined, upon a written request for exemption by or for the benefit of the broker or dealer, that the broker or dealer may utilize such a registered clearing agency or derivatives clearing organization. The Commission may, in its sole discretion, grant such an exemption subject to such conditions as are appropriate under the circumstances, if the Commission determines that such conditional or unconditional exemption is necessary or appropriate in the public interest, and is consistent with the protection of investors; and

SEA Rule 15c3-3(Exhibit A - Note G(b)(1)(iii))

NOTES REGARDING THE CUSTOMER RESERVE BANK ACCOUNT COMPUTATION  
(continued)

Note G (continued)

(2) A registered clearing agency or derivatives clearing organization that, if it holds funds or securities deposited as margin for security futures products or futures in a portfolio margin account in a bank, as defined in section 3(a)(6) of the Act (15 U.S.C. 78c(a)(6)), obtains and preserves written notification from the bank at which it holds such funds and securities or at which such funds and securities are held on its behalf. The written notification will state that all funds and/or securities deposited with the bank as margin (including customer security futures products and futures in a portfolio margin account), or held by the bank and pledged to such registered clearing agency or derivatives clearing agency as margin, are being held by the bank for the exclusive benefit of clearing members of the registered clearing agency or derivatives clearing organization (subject to the interest of such registered clearing agency or derivatives clearing organization therein), and are being kept separate from any other accounts maintained by the registered clearing agency or derivatives clearing organization with the bank. The written notification also will provide that such funds and/or securities will at no time be used directly or indirectly as security for a loan to the registered clearing agency or derivatives clearing organization by the bank, and will be subject to no right, charge, security interest, lien, or claim of any kind in favor of the bank or any person claiming through the bank. This provision, however, will not prohibit a registered clearing agency or derivatives clearing organization from pledging customer funds or securities as collateral to a bank for any purpose that the rules of the Commission or the registered clearing agency or derivatives clearing organization otherwise permit; and

(3) A registered clearing agency or derivatives clearing organization establishes, documents, and maintains:

(i) Safeguards in the handling, transfer, and delivery of cash and securities;

(ii) Fidelity bond coverage for its employees and agents who handle customer funds or securities. In the case of agents of a registered clearing agency or derivatives clearing organization, the agent may provide the fidelity bond coverage; and

(iii) Provisions for periodic examination by independent public accountants; and

(iv) A derivatives clearing organization that, if it is not otherwise registered with the Commission, has provided the Commission with a written undertaking, in a form acceptable to the Commission, executed by a duly authorized person at the derivatives clearing organization, to the effect that, with respect to the clearance and settlement of the customer security futures products and futures in a portfolio margin account of the broker or dealer, the derivatives clearing organization will permit the Commission to examine the books and records of the derivatives clearing organization for compliance with the requirements set forth in § 240.15c3-3a, Note G (b)(1) through (3).

SEA Rule 15c3-3(Exhibit A - Note G(b)(3)(iv))

NOTES REGARDING THE CUSTOMER RESERVE BANK ACCOUNT COMPUTATION  
(continued)

Note G (continued)

(c) Item 14 will apply only if a broker or dealer determines, at least annually, that the registered clearing agency or derivatives clearing organization with which the broker or dealer has on deposit margin related to securities future products or futures in a portfolio margin account meets the conditions of this Note G.

**(NEXT PAGE IS 2615)**

SEA Rule 15c3-3(Exhibit A - Note G(c))

NOTES REGARDING THE PAB RESERVE BANK ACCOUNT COMPUTATIONNote 1

Broker-dealers should use the formula in Exhibit A for the purposes of computing the PAB reserve requirement, except that references to “accounts,” “customer accounts, or “customers” will be treated as references to PAB accounts.

Note 2

Any credit (including a credit applied to reduce a debit) that is included in the computation required by § 240.15c3-3 with respect to customer accounts (the “customer reserve computation”) may not be included as a credit in the computation required by § 240.15c3-3 with respect to PAB accounts (the “PAB reserve computation”).

Note 3

Note E(1) to § 240.15c3-3a does not apply to the PAB reserve computation.

Note 4

Note E(3) to § 240.15c3-3a which reduces debit balances by 1% does not apply to the PAB reserve computation.

Note 5

Interest receivable, floor brokerage, and commissions receivable of another broker or dealer from the broker or dealer (excluding clearing deposits) that are otherwise allowable assets under § 240.15c3-1 need not be included in the PAB reserve computation, provided the amounts have been clearly identified as payables on the books of the broker or dealer. Commissions receivable and other receivables of another broker or dealer from the broker or dealer that are otherwise non-allowable assets under § 240.15c3-1 and clearing deposits of another broker or dealer may be included as “credit balances” for purposes of the PAB reserve computation, provided the commissions receivable and other receivables are subject to immediate cash payment to the other broker or dealer and the clearing deposit is subject to payment within 30 days.

NOTES REGARDING THE PAB RESERVE BANK ACCOUNT COMPUTATION (continued)Note 6

Credits included in the PAB reserve computation that result from the use of securities held for a PAB account (“PAB securities”) that are pledged to meet intra-day margin calls in a cross-margin account established between the Options Clearing Corporation and any regulated derivatives clearing organization may be reduced to the extent that the excess margin held by the other clearing corporation in the cross-margin relationship is used the following business day to replace the PAB securities that were previously pledged. In addition, balances resulting from a portfolio margin account that are segregated pursuant to Commodity Futures Trading Commission regulations need not be included in the PAB Reserve Bank Account computation.

Note 7

Deposits received prior to a transaction pending settlement which are \$5 million or greater for any single transaction or \$10 million in aggregate may be excluded as credits from the PAB reserve computation if such balances are placed and maintained in a separate PAB Reserve Bank Account by 12 p.m. Eastern Time on the following business day. Thereafter, the money representing any such deposits may be withdrawn to complete the related transactions without performing a new PAB reserve computation.

Note 8

A credit balance resulting from a PAB reserve computation may be reduced by the amount that items representing such credits are swept into money market funds or mutual funds of an investment company registered under the Investment Company Act of 1940 on or prior to 10 a.m. Eastern Time on the deposit date provided that the credits swept into any such fund are not subject to any right, charge, security interest, lien, or claim of any kind in favor of the investment company or the broker or dealer. Any credits that have been swept into money market funds or mutual funds must be maintained in the name of a particular broker or for the benefit of another broker.

Note 9

Clearing deposits required to be maintained at registered clearing agencies may be included as debits in the PAB reserve computation to the extent the percentage of the deposit, which is based upon the clearing agency’s aggregate deposit requirements (e.g., dollar trading volume), that relates to the proprietary business of other brokers and dealers can be identified.

Note 10

A broker or dealer that clears PAB accounts through an affiliate or third party clearing broker must include these PAB account balances and the omnibus PAB account balance in its PAB reserve computation.

**(NEXT PAGE IS 2621)**

SEA Rule 15c3-3(Exhibit A - Note 10)

RESERVE FORMULA (EXHIBIT A – GENERAL)/01 Weekly Computations

Broker-dealers that make a weekly determination under the Reserve Formula are permitted to net free credit and other credit balances in customers' security accounts (Reserve Formula, Item 1), with the debit balances in customers' cash and margin accounts, excluding unsecured debits and accounts doubtful of collection (Reserve Formula, Item 10), for the computations other than that as of the month-end.

The month-end computation must reflect customers' credit and debit balances separately, permitting, however, the combining of the balances in the several accounts of any one customer. Where customers' credit and debit balances are developed separately on a monthly basis, the amount of customers' unsecured debits and accounts doubtful of collection computed at that time may be used in the weekly computation until the next monthly determination.

If customer balances are netted in weekly computations of the formula, to comply with the 1% reduction in debits requirement outlined in Note E(3) of the Reserve Formula, the weekly computations should use the amount of reduction to such debits which was applied at the previous month-end. In the event the netting of customers' balances on a weekly basis results in a credit, the credit should be increased by the amount of the 1% reduction computed as of the previous month-end.

Note: This does not apply for firms using the alternative net capital computation method.

(SEC Release 34-9922, January 2, 1973)

/011 Netting of Customer Balances

In the event that a negative credit results on line Item #1 when the firm allocates customer shorts versus firm longs or customer shorts versus non-customer long, the customer negative credit must be added to the customer debits on line Item #12 which results in an increase in customer debits.

(SEC Staff to NYSE) (No. 01-3, March 2001)

RESERVE FORMULA (EXHIBIT A – GENERAL) (continued)/02 Annual Audit

Where the audit date may not fall on a date for which a computation would be required, the broker-dealer shall make a computation as of the audit date and shall make any required deposit within the time specified in the rule. For firms who compute weekly, this audit date computation will be in lieu of the normal computation required for that period. For firms who compute monthly, the audit date computation will be in lieu of any computation required for the calendar month within which the audit falls; provided, that when the audit date is not a month end date the subsequent computation must not be more than 40 calendar days from the date of the audit.

(SEC Letter to NASD, April 28, 1975)

/03 Allocation

Responses to certain of the items contained in the computation may require the determination of an amount that relates to customer accounts, transactions, or activity undertaken to consummate customer transactions based on an allocation method. If it is impractical or unduly burdensome to determine which fail to receive contracts and fail to deliver contracts relate to customer accounts and which securities loaned and securities borrowed are for customer accounts, an appropriate allocation may be made on a conservative basis to accomplish maximum protection for customers. If an allocation is used with regard to the foregoing items, the broker or dealer should be able to demonstrate that the results so obtained regarding designations of customer versus proprietary or non-customer positions would be comparable to those which would be obtained if the respective positions had been developed without the use of an allocation.

(SEC Letter to NYSE, May 3, 1985)



RESERVE FORMULA (EXHIBIT A – GENERAL) (continued)

/031 Allocation on Stock Borrow/Stock Loan – (Rescinded, No. 02-7, August 2002)

/032 Allocation on Stock Borrow/Stock Loan

If a market value allocation is used, the general ledger balances (contract value) of stock borrows and stock loans need to be reduced by the excess contract value over market value for only those items excluded from the reserve formula.

(SEC Staff to NYSE) (No. 02-7, August 2002)

/04 Making and Retaining a Record of Allocation

When an allocation is required to determine balances, positions or accounts allocable to customers, the broker-dealer shall make and maintain a record of each such allocation and preserve it in accordance with SEA Rule 17a-4.

(SEC Staff to NYSE)

/05 Repurchase, Reverse Repurchase and Matched Repurchase Agreement Transactions are Proprietary

These transactions shall be treated as proprietary transactions in the formula and allocated as such.

(SEC Staff to NYSE) (No. 78-1, May 1978)

RESERVE FORMULA (EXHIBIT A – GENERAL) (continued)/06 Subjecting Customers' Securities to Cross Liens Prohibited

Where a broker pledges customers' securities as well as his own securities or those of non-customers (partners, other broker-dealers, etc.) with a single pledgee to secure several loans, one or more of which are made against the broker's own securities, or those of non-customers, it is necessary that the pledgee does not have a lien upon customers collateral for any loan except other loans also made against securities carried for the account of customers of the same broker. In other words customers' securities and other property should not be available as collateral for proprietary or non-customer loans or obligations.

Such cross lien restrictions would also include but are not limited to obligations arising from:

- Clearing arrangements
- Unsecured loans
- Drafts payable to lender
- Overdrawn bank accounts
- Letters of Credit

Customer loans would include "Agreements to Pledge" loan arrangements. See interpretation 15c3-3(Exhibit A - Item 2)/10 for amounts includible in the Reserve Formula.

Such arrangements which could subject customers' securities or property to "cross liens" may be in violation of SEA Rules 8c-1 and 15c2-1.

(SEC Letter to NYSE, May 3, 1985)

/07 "Remote Checking"

The SEC expressed concern about the practice of the issuance to customers of checks drawn on distant banks for the purpose of prolonging a broker-dealer's use of customer funds. It said this unfairly deprives customers of their immediate use of funds, is inconsistent with an obligation to deal fairly with its customers, is inconsistent with just and equitable principles of trade, and may violate the antifraud provisions of the Federal securities laws.

(NYSE Information Circular No. 79-11 and SEC Release No. 34-15194)  
(No. 80-3, February 1980)

SEA Rule 15c3-3(Exhibit A - General)/07

CUSTOMER RESERVE FORMULA (EXHIBIT A – GENERAL); ALLOCATION CHART/08 Customer Reserve Formula Allocation Chart

This customer reserve formula allocation chart shows the relationship between the various allocable items and may be used in conjunction with the interpretations when an allocation is required to determine the debit and credit values includible in the customer reserve formula computation.

Note: For purposes of the customer reserve formula allocation chart, references to “non-customer” include “PAB accounts” as defined under SEA Rule 15c3-3(a)(16). For purposes of the customer reserve formula computation under SEA Rule 15c3-3(Exhibit A) and the interpretations thereunder, references to “non-customer” will continue to include accounts which are defined as PAB accounts.

(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

A. CREDITS

<u>Short Location:</u>	<u>Long Allocation</u>	<u>Include</u>		
		<u>Credit</u>	<u>Debit</u>	<u>Notes</u>
<u>Customer Bank Loan vs:</u>				
	Customer long	Yes	Yes	
	Proprietary long	Yes	No	Note 1
	Non-Customer long	Yes	No	Notes 1, 2
	Stock Borrowed	Yes	Yes	Note 3
	Fail to Deliver	Yes	Yes	
<u>Non-Customer Bank Loan vs:</u>				
	Customer long, Stock Borrowed or Fail to Deliver	Yes	Yes	
	Non-Purpose Loan accounts	Yes	No	Note 5
	Proprietary and Non- Customer accounts	No	No	

SEA Rule 15c3-3(Exhibit A - General)/08

CUSTOMER RESERVE FORMULA (EXHIBIT A – GENERAL); ALLOCATION CHART  
(continued)

A. CREDITS (continued)

<u>Short Location:</u>	<u>Long Allocation</u>	<u>Include</u>		<u>Notes</u>
		<u>Credit</u>	<u>Debit</u>	
<u>Proprietary Bank Loan vs:</u>	Customer account long	Yes	Yes	Notes 4, 6, 8
	Fail to Deliver or Stock Borrowed	Yes	Yes	Notes 3, 4, 6, 7
	Proprietary, subordinated, general partners, directors, and principal officers accounts long	No	No	Note 7
	All other long allocations	Yes	No	Note 4, 7
<u>Any Bank or Custody Location</u> <u>with Cross Lien Provisions vs:</u>	Customer account long	Yes	Yes	Note 9

CUSTOMER RESERVE FORMULA (EXHIBIT A – GENERAL); ALLOCATION CHART  
(continued)

A. CREDITS (continued)

<u>Short Location:</u>	<u>Long Allocation</u>	<u>Include</u>		<u>Notes</u>
		<u>Credit</u>	<u>Debit</u>	
<u>Collateral to Letter of Credit (LOC) or Collateral Pledged for OCC Customer Margin Requirement vs:</u>				
	Customer accounts long	Yes	Yes	Note 10
	Proprietary Qualified Securities	No	Yes	Note 11
	Non-Customer or Proprietary accounts	No	No	
<u>Collateral Pledged to Letter of Credit for Securities Borrowed vs:</u>				
	Customer accounts long	Yes	Yes	Note 12
	Non-Customer or Non-Purpose Loan accounts	No	No	Note 13
	Proprietary accounts	No	No	
<u>Collateral Pledged for Securities Borrowed vs:</u>				
	Customer accounts long	Yes	Yes	Notes 14, 15
	Non-Customer and Non-Purpose Loan accounts	No	No	Note 15
	Proprietary accounts	No	No	Note 15

CUSTOMER RESERVE FORMULA (EXHIBIT A – GENERAL); ALLOCATION CHART  
(continued)

A. CREDITS (continued)

<u>Short Location:</u>	<u>Long Allocation</u>	<u>Include</u>		<u>Notes</u>
		<u>Credit</u>	<u>Debit</u>	
<u>Securities Loaned vs:</u>				
	Customer accounts long	Yes	Yes	Note 16
	Fails to Deliver	Yes	Yes	
	Securities Borrowed	No	No	Note 17
	Non-Customer and Proprietary accounts long	No	No	Note 17
<u>Fails to Receive vs:</u>				
	Customer accounts long	Yes	Yes	Note 18
	Fails to Deliver	Yes	Yes	Note 19
	Non-Customer accounts long	No	No	Note 20
	Proprietary accounts long	No	No	Note 20
	Securities Borrowed	Yes	Yes	Note 19
<u>Proprietary and Non-Customer Shorts vs:</u>				
	Customer accounts long	Yes	Yes	Note 21
	Non-Customer accounts long	No	No	
<u>Customer Short Position vs:</u>				
	Customer long	Yes	Yes	Note 22
	Proprietary and Non-Customer accounts long	No	No	Note 23

CUSTOMER RESERVE FORMULA (EXHIBIT A – GENERAL); ALLOCATION CHART  
(continued)

B. OTHER CREDITS OR VALUES INCLUDIBLE - REGARDLESS OF ALLOCATION

	<u>Include</u> <u>Credit</u>	<u>Notes</u>
Securities Borrowed Secured by an Irrevocable Letter of Credit Secured by Customer Margin Securities	Yes	Note 12
Stock Dividends Receivable, Stock Splits and Other Distributions Over 30 Calendar Days Old	Yes	Note 24
Suspense Account Credits and Short Security Count, Unverified Short and Suspense Security Differences:		
Over 7 business days old	Yes	Note 25
Over 30 calendar days old	Yes	Note 26
Transfer over 40 calendar days old	Yes	Note 27
Prepaid Fails to Receive	Yes	Note 28
Unclaimed Dividends and Interest Payable	Yes	Note 29
All outstanding drafts payable to customers which have been applied against free or other credit balances and checks drawn in excess of bank balances (per firm records)	Yes	Note 30
TEFRA Accounts Payable	Yes	Note 31
Accrued Interest Payable on Customer Credit Balances	Yes	Note 32

CUSTOMER RESERVE FORMULA (EXHIBIT A – GENERAL); ALLOCATION CHART  
(continued)

C. DEBITS

<u>Long Position:</u>	<u>Short Allocation</u>	<u>Include</u>		<u>Notes</u>
		<u>Debit</u>	<u>Credit</u>	
<u>Securities Borrowed Collateralized</u>				
<u>By Cash, U.S. Treasury Bills, Notes,</u>				
<u>LOCs Secured by Proprietary Qualified</u>				
<u>Securities, or any other Acceptable</u>				
<u>Collateral as per (b)(3) vs:</u>				
	Customer accounts short	Yes	Yes	Note 33
	Non-customer or Proprietary accounts short	No	No	Note 34
	Fails to Receive	Yes	Yes	Note 35
	Customer Bank Loan	Yes	Yes	
	Non-Customer or Proprietary Bank Loan	Yes	Yes	Note 7
	Securities Loan	No	No	Note 34
	Stock Dividend Receivable	No	No	Note 36
	Transfer	No	No	Note 37
	All Other Physical Control Locations	No	No	Note 38
	<u>Securities Borrowed Secured by an Unsecured Irrevocable Letter of Credit, Unacceptable Collateral as per (b)(3) or Unsecured Borrows</u>	No	*	Note 39

\* AS ALLOCATED ABOVE



CUSTOMER RESERVE FORMULA (EXHIBIT A – GENERAL); ALLOCATION CHART  
(continued)

C. DEBITS (continued)

<u>Long Position:</u>	<u>Short Allocation</u>	<u>Include</u>		<u>Notes</u>
		<u>Debit</u>	<u>Credit</u>	
<u>Fails to Deliver Not Over 30 *</u> <u>Calendar Days Old vs:</u>				
	Customer accounts short	Yes	Yes	Note 40
	Non-Customer and Proprietary accounts short	No	No	
	Fails to Receive	Yes	Yes	Note 41
	Customer Bank Loan	Yes	Yes	
	Proprietary and Non-Customer Bank Loan	Yes	Yes	Note 7
	Securities Loaned	Yes	Yes	
	Transfer	Yes	**	Note 42
	Other Physical Control Location for Not More Than 3 Business Days	Yes	No	Note 43

\* See interpretations /011, /071, and /09 to Item 12.

\*\* Credit must be included for unconfirmed items over 40 days.

NOTES REGARDING THE CUSTOMER RESERVE FORMULA ALLOCATION CHART

- Note 1 Proprietary and non-customer collateral should be removed.
- Note 2 See interpretation to Item 2 /07.
- Note 3 The pledge of securities borrowed subject to Reg T 220.16 is an inappropriate use.
- Note 4 Include market value of the collateral up to the amount borrowed as a credit.
- Note 5 Separate non-purpose bank loan should be maintained to avoid including a credit in the formula.
- Note 6 Inappropriate collateral should be removed.
- Note 7 See interpretations to Item 2 /05 and /051.
- Note 8 See interpretations to Item 2 /05, /051 and /08.
- Note 9 Include the amount required by interpretation to Item 2 /10.
- Note 10 Include up to the amount of OCC margin requirement. See interpretations to Item 2 /02, /021, /03 and /031.
- Note 11 See interpretation to Item 13 /01.
- Note 12 Include the market value of the borrowed securities as a credit. See interpretations to Item 11 /01 and Item 2 /04.
- Note 13 When they are not commingled with customer securities. Otherwise include the market value of the borrowed securities as a credit.
- Note 14 Include the market value of the pledged securities.
- Note 15 See Reg T and SEA 15c3-3(b)(3)(iii) for types of collateral that can be pledged to secure borrowed securities. See interpretation to Item 11 /01.
- Note 16 Credit increased by mark to market. See interpretations to Item 3 /01, /011 and /012.
- Note 17 See interpretations to Item 3 /02 and /03.
- Note 18 If the Fail to Receive is over 30 calendar days old, the formula credit is increased by the mark to market. See interpretations to Item 4 /01 and /03.

NOTES REGARDING THE CUSTOMER RESERVE FORMULA ALLOCATION CHART  
(continued)

- Note 19 If a Fail to Receive matches a Fail to Deliver (not over 30 calendar days old) or a Securities Borrowed of the same quantity and issue, both the credit and debit may be excluded. See interpretations to Item 4 /01 and /07.
- Note 20 See Interpretations to Item 4 /07.
- Note 21 Include the market value of short securities. See interpretations to Item 4 /03 and Item 5 /01 and /02.
- Note 22 Include the market value of unsecured shorts as a credit in the Formula.
- Note 23 See interpretations to Item 10 /033.
- Note 24 Include the market value. See interpretation to Item 6 /01.
- Note 25 Under the alternative method, see interpretations to Item 7 /01 and Item 8 /01, 8 /02 and 8 /03.
- Note 26 Under the basic method, see interpretations to Item 7 /01 and Item 8 /01, 8 /02 and 8 /03.
- Note 27 When not confirmed by the transfer agent or issuer. See interpretations to Item 9 /01 and /02.
- Note 28 Include the market value of the short securities position. See interpretation to Item 4 /02.
- Note 29 To be treated as Suspense Items above. See interpretation to Item 8 /03.
- Note 30 See interpretations to Item 1 /20, /21, /22, /23, /24, /25 and /26.
- Note 31 See interpretation to Item 1 /05.
- Note 32 See interpretation to Item 1 /07.
- Note 33 See interpretation to Item 11 /01.
- Note 34 See interpretation to Item 11 /03.

NOTES REGARDING THE CUSTOMER RESERVE FORMULA ALLOCATION CHART  
(continued)

- Note 35 If a Securities Borrowed matches a Fail to Receive of the same quantity and issue, both the credit and debit may be excluded. 1% of the contract value of Securities Borrowed which were allocated to Fail to Receive contracts and excluded from the Formula is deducted from net capital under the alternative method. See interpretation to Item 11 /03.
- Note 36 See interpretation to Items 11 /03 and 6 /01.
- Note 37 Unless it previously allocated to customer fail to deliver. See interpretation to Item 11 /03.
- Note 38 Unless in accordance with interpretation to Item 11 /03.
- Note 39 1% of the market value of securities borrowed collateralized by LOCs shall be deducted from net capital. See interpretation to Item 11 /03.
- Note 40 See interpretation to Item 12 /01.
- Note 41 If a Fail to Deliver matches a Fail to Receive of the same quantity and issue, both the credit and debit may be excluded. 1% of the contract value of all Fail to Deliver items which were allocated to Fail to Receive contracts and excluded from the formula is deducted from net capital under the alternative method. See interpretation to Item 12 /07 and /08.
- Note 42 Credit must be included for unconfirmed items over 40 days old. See interpretation to Item 12 /04.
- Note 43 Provided the securities are negotiable and are in excess of possession or control requirements and the fail to deliver previously allocated to a credit item in the formula. See interpretation to Item 12 /08 and /081.

**(NEXT PAGE IS 2637)**

PAB RESERVE FORMULA (EXHIBIT A – GENERAL); ALLOCATION CHART/09 PAB Reserve Formula Allocation Chart

This PAB reserve formula allocation chart shows the relationship between the various allocable items and may be used in conjunction with the interpretations when an allocation is required to determine the debit and credit values includible in the PAB reserve formula computation.

(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

A. CREDITS

<u>Short Location:</u>	<u>Long Allocation</u>	<u>Include</u>	
		<u>Credit</u>	<u>Debit</u>
<u>Customer Bank Loan vs:</u>			
	Customer Long	No	No
	Proprietary Long	No	No
	Non-Customer Long	No	No
	PAB Accounts Long	No	Yes
	Stock Borrowed	No	No
	Fail to Deliver	No	No
 <u>Non-Customer Bank Loan vs:</u>			
	Customer Long, Stock Borrowed or Fail to Deliver	No	No
	Non-Purpose Loan Accounts	No	No
	Proprietary and Non- Customer Accounts	No	No
	PAB Accounts Long	Yes	Yes
			Note 1

SEA Rule 15c3-3 (Exhibit A - General)/09

PAB RESERVE FORMULA (EXHIBIT A – GENERAL); ALLOCATION CHART (continued)A. CREDITS (continued)

<u>Short Location:</u>	<u>Long Allocation</u>	<u>Include</u>		
		<u>Credit</u>	<u>Debit</u>	
<u>Proprietary Bank Loan vs:</u>				
	Customer Account long	No	No	
	Fail to Deliver or Stock Borrowed	No	No	
	Proprietary, Subordinated, General Partners, Directors, and Principal Officers Accounts Long	No	No	
	PAB Accounts Long	No	Yes	
	All Other Long Allocations	No	No	
 <u>Any Bank or Custody Location with Cross Lien Provisions vs:</u>				
	Customer Account Long	No	No	
	PAB Accounts Long	Yes	Yes	Note 2
 <u>Collateral to Letter of Credit (LOC) or Collateral Pledged for OCC Customer Margin Requirement vs:</u>				
	Customer Accounts Long	No	No	
	Proprietary Qualified Securities	No	No	
	Non-Customer or Proprietary Accounts	No	No	
	PAB Accounts Long	Yes	Yes	Notes 8 and 9A

PAB RESERVE FORMULA (EXHIBIT A – GENERAL); ALLOCATION CHART (continued)A. CREDITS (continued)

<u>Short Location:</u>	<u>Long Allocation</u>	<u>Include</u>		
		<u>Credit</u>	<u>Debit</u>	
<u>Collateral to Letter of Credit or</u>				
<u>Collateral Pledged for OCC PAB</u>				
<u>Margin Requirement vs:</u>				
	Customer Accounts Long	No	No	
	Proprietary Qualified Securities	No	Yes	
	Non-Customer or Proprietary Accounts	No	No	
	PAB Accounts	Yes	Yes	Notes 6, 7, 8, 9A
 <u>Collateral Pledged to Letter of</u>				
<u>Credit for Securities Borrowed vs:</u>				
	Customer Accounts Long	No	No	
	Non-Customer or Non-Purpose Loan Accounts	No	No	
	PAB Accounts Long	Yes	Yes	Note 3
	Proprietary Accounts	No	No	
 <u>Collateral Pledged for Securities Borrowed vs:</u>				
	Customer Accounts Long	No	No	
	Non-Customer and Non-Purpose Loan Accounts	No	No	
	PAB Accounts Long	Yes	Yes	Note 4
	Proprietary Accounts	No	No	

PAB RESERVE FORMULA (EXHIBIT A – GENERAL); ALLOCATION CHART (continued)A. CREDITS (continued)

<u>Short Location:</u>	<u>Long Allocation</u>	<u>Include</u>		
		<u>Credit</u>	<u>Debit</u>	
<u>Securities Loaned vs:</u>				
	Customer Accounts Long	No	No	
	Fails to Deliver	No	No	
	Securities Borrowed	No	No	
	Non-Customer and Proprietary Accounts Long	No	No	
	PAB Accounts Long	Yes	Yes	
<u>Fails to Receive vs:</u>				
	Customer Accounts Long	No	No	
	Fails to Deliver	No	No	
	Non-Customer Accounts Long	No	No	
	PAB Accounts Long	Yes	Yes	
	Proprietary Accounts Long	No	No	
	Securities Borrowed	No	No	
<u>Proprietary and Non- Customer Shorts vs:</u>				
	Customer Accounts Long	No	No	
	Non-Customer Accounts Long	No	No	
	PAB Accounts Long	Yes	Yes	Note 5



PAB RESERVE FORMULA (EXHIBIT A – GENERAL); ALLOCATION CHART (continued)A. CREDITS (continued)

<u>Short Location:</u>	<u>Long Allocation</u>	<u>Include</u>	
		<u>Credit</u>	<u>Debit</u>
<u>Customer Short Position vs:</u>			
	Customer Long	No	No
	Proprietary and Non-Customer Accounts Long	No	No
	PAB Accounts Long	Yes	Yes
 <u>PAB Short Position vs:</u>			
	Customer Long	No	No
	Proprietary and Non-Customer Accounts Long	No	No
	PAB Accounts Long	Yes	Yes

PAB RESERVE FORMULA (EXHIBIT A – GENERAL); ALLOCATION CHART (continued)B. OTHER CREDITS OR VALUES INCLUDIBLE - REGARDLESS OF ALLOCATION

	<u>Include</u> <u>Credit</u>	
Securities Borrowed Secured by an Irrevocable Letter of Credit Secured by Customer Margin Securities	No	
Securities Borrowed Secured by an Irrevocable Letter of Credit Secured by PAB Securities	Yes	Note 3
Stock Dividends Receivable, Stock Splits and Other Distributions Over 30 Calendar Days Old	No	
Suspense Account Credits and Short Security Count, Unverified Short and Suspense Security Differences:		
Over 7 business days old	No	
Over 30 calendar days old	No	
Transfer over 40 calendar days old	No	
Prepaid Fails to Receive	No	
Unclaimed Dividends and Interest Payable	No	
All outstanding drafts payable to customers which have been applied against free or other credit balances and checks drawn in excess of bank balances (per firm records)	No	

PAB RESERVE FORMULA (EXHIBIT A – GENERAL); ALLOCATION CHART (continued)B. OTHER CREDITS OR VALUES INCLUDIBLE - REGARDLESS OF ALLOCATION  
(continued)

	<u>Include</u> <u>Credit</u>
Drafts Payable to PAB	Yes
TEFRA Accounts Payable	No
Accrued Interest Payable on Customer Credit Balances	No
Accrued Interest Payable on PAB Credit Balances	Yes

PAB RESERVE FORMULA (EXHIBIT A – GENERAL); ALLOCATION CHART (continued)C. DEBITS

<u>Long Position:</u>	<u>Short Allocation</u>	<u>Include</u>	
		<u>Debit</u>	<u>Credit</u>
<u>Securities Borrowed Collateralized</u>			
<u>by Cash, U.S. Treasury Bills, Notes,</u>			
<u>LOC's Secured by Proprietary Qualified</u>			
<u>Securities, or Any Other Acceptable</u>			
<u>Collateral as per (b)(3) vs:</u>			
	Customer Accounts Short	No	No
	Non-Customer or Proprietary Accounts Short	No	No
	PAB Accounts Short	Yes	Yes
	Fails to Receive	No	No
	Customer Bank Loan	No	No
	Non-Customer or Proprietary Bank Loan	No	No
	Securities Loan	No	No
	Stock Dividend Receivable	No	No
	Transfer	No	No
	All Other Physical Control Locations	No	No
	<u>Securities Borrowed Secured by an</u>	No	
	<u>Unsecured Irrevocable Letter of Credit,</u>		
	<u>Unacceptable Collateral as per (b)(3) or</u>		
	<u>Unsecured Borrows</u>		

PAB RESERVE FORMULA (EXHIBIT A – GENERAL); ALLOCATION CHART (continued)C. DEBITS (continued)

<u>Long Position:</u>	<u>Short Allocation</u>	<u>Include</u>	
		<u>Debit</u>	<u>Credit</u>
<u>Fails to Deliver Not Over 30 *</u>			
<u>Calendar Days Old vs:</u>			
	Customer Accounts Short	No	No
	Non-Customer and Proprietary Accounts Short	No	No
	PAB Accounts Short	Yes	Yes
	Fails to Receive	No	No
	Customer Bank Loan	No	No
	Proprietary and Non-Customer Bank Loan	No	No
	Securities Loaned	No	No
	Transfer	No	No
	Other Physical Control Location for Not More Than 3 Business Days	No	No

NOTES REGARDING THE PAB RESERVE FORMULA ALLOCATION CHART

Note 1 Include market value of the collateral up to the amount borrowed as a credit.

Note 2 When a broker-dealer pledges PAB securities to a non-customer loan and also, has proprietary and/or customer loans with the same pledgee, it must assure itself that the pledgee does not have a lien upon non-customer collateral for any loan other than for PAB non-customers.

If a cross lien exists and could place PAB securities at risk, there shall be included in the PAB formula the amount of the PAB loan, plus the lower of the value of PAB collateral in excess of the loan or the amount of loans for other than PAB.

Note 3 Include the market value of the borrowed securities as a credit.

Note 4 Include the market value of the pledged securities.

Note 5 Include the market value of the short securities.

Note 6 Letters of Credit Secured by Customer and Non-Customer Securities

When a letter of credit, collateralized by both customer and non-customer securities, is deposited with OCC as margin, only the amount required for customers' margin is included as a debit in the customer Reserve Formula. Therefore, the amount of margin required for market-maker accounts is included as a debit in the PAB Reserve Formula to the extent it is collateralized by customer and PAB securities. (The combined customer and non-customer margin requirement, up to the amount of the letter of credit, must be included as a credit in the customer's Reserve Formula only).

Note 7 OCC Margin Requirement Met by PAB Securities

When PAB collateral is deposited with OCC to satisfy market-maker margin requirements, the actual amount of margin required is included in the Formula as a debit and a credit.

Note 8 Letters of Credit Secured by PAB Securities

Include as a credit, the amount of letters of credit which are collateralized by PAB securities and deposited with OCC, to the extent of the margin requirement at OCC, which is covered by such letters of credit.

NOTES REGARDING THE PAB RESERVE FORMULA ALLOCATION CHART (continued)

Note 9 Commingled Collateral as OCC Margin Deposit – (Rescinded, No. 03-2, March 2003)

Note 9A Commingled Collateral as OCC Margin Deposit

When customer, non-customer (which can include PAB) and qualified proprietary securities are commingled as margin on deposit with OCC the lesser of the customer margin requirement or the market value of the customers' securities pledged as collateral should be included as a credit in the customer Reserve Formula. In addition, the lesser of the customers' margin requirement or the total market value of the customers' and qualified proprietary securities pledged as collateral should be included as a debit in the customer Reserve Formula.

The market value of PAB securities pledged as collateral for the customers' margin requirement should be included as a debit and a credit in the PAB Reserve Formula up to the OCC customer margin requirement less the debit included in the customer Reserve Formula.

(SEC Staff to NYSE) (No. 03-2, March 2003)

Note 10 Total PAB Debits

When computing the minimum net capital requirement, PAB total debits would not be included.

NOTES REGARDING THE PAB RESERVE FORMULA ALLOCATION CHART (continued)Note 11 Customer Concentration

Note E(5) under 15c3-3 (Exhibit A) concerning customer concentration does apply to the PAB Reserve Formula. Note E(5) states that debit balances in margin accounts (other than omnibus accounts) should be reduced by the amount by which any single PAB debit balance exceeds 25% (to the extent such amount is greater than 50,000) of the broker-dealer's tentative net capital (i.e., net capital prior to securities haircuts) unless the broker or dealer can demonstrate that the debit balance is directly related to credit items in the Reserve Formula. Related accounts (e.g. the separate accounts of an individual, accounts under common control or subject to cross guarantees) shall be deemed to be a single PAB account for purpose of this provision.

/01 Determination of the Includible Amount of a PAB's Concentrated Margin Debit Balance in the PAB Reserve Formula

A broker-dealer may utilize its PAB reserve formula allocation to determine the includible amount of a PAB's concentrated margin debit balance that is related to a credit item in the PAB reserve formula.

The broker-dealer's allocation system must be able to determine any long security position underlying a PAB's concentrated margin debit balance that allocates to a short security position underlying the related credit item in the PAB reserve formula.

Credit items that have been included in the PAB reserve formula, which may be considered as relating to a PAB's concentrated margin debit balance, are limited to those related to bank loan, securities loan, fail to receive, customer short, proprietary short, PAB short and non-customer short.

Each credit item identified as relating to a PAB's concentrated margin debit balance must have a related credit balance which is included in the PAB reserve formula, in order for the PAB's concentrated margin debit balance to be includible in the PAB reserve formula.

(SEC Staff to NYSE) (No. 07-4, April 2007)

**(NEXT PAGE IS 2651)**

SEA Rule 15c3-3 (Exhibit A - General)/09



RESERVE FORMULA (EXHIBIT A - ITEM 1); CUSTOMER CREDIT BALANCES/01 Customer Credit Balances

Report free credit balances and other credit balances contained in customers' security accounts. Also include:

- Outstanding drafts payable to customers (SEA Rule 15c3-3(Exhibit A - Note A)).
- Checks drawn in excess of bank balances (interpretation 15c3-3(Exhibit A - Item 1)/20).
- Checks drawn on a credit line account (interpretation 15c3-3(Exhibit A - Item 1)/22).
- Overdrafts in bank account not otherwise excluded by interpretation.

When net capital is computed under the basic method and customers' debit and credit balances are netted for the weekly formula computation (other than at month-end, see interpretation 15c3-3(Exhibit A - General)/01) and that netting results in a credit, see interpretation 15c3-3(Exhibit A - Item 10)/06.

/02 Non-Regulated Commodity Accounts

Include the net balance due to customers in non-regulated commodity accounts, reduced by any deposits of cash or securities with any clearing organization or clearing broker in connection with the open contracts in such accounts.

(SEC Release 34-9922, January 2, 1973)

/021 Netting Customers' Non-Regulated and Regulated Commodity Accounts

The net balances determined in accordance with interpretation 15c3-3(Exhibit A - Item 1)/02 may be further reduced by the deficit contained in a customer's regulated commodity account to the extent of the equity contained in the same customer's non-regulated commodity account.

(SEC Staff to NYSE) (No. 78-1, May 1978)

/022 Customer Balances Related to Foreign Futures and Options Transactions

Any customer balances comprehended in the computation required by CFTC Regulation 30.7 need not be included in the formula.

(NYSE Information Memo No. 88-10, April 20, 1988)

SEA Rule 15c3-3(Exhibit A - Item 1)/022

RESERVE FORMULA (EXHIBIT A - ITEM 1); CUSTOMER CREDIT BALANCES (continued)/03 Partly Secured Accounts

See Item 10 /012 when a partly secured account has a credit balance.

When net capital is computed under the basic method and all customer balances are netted for the weekly formula computation, see Item 10 /06.

(SEC Letter to NYSE, December 9, 1975)

/04 Special Omnibus or Similar Accounts

When a special omnibus account maintained in compliance with the requirements of Section 10 of Regulation T or similar accounts carried on behalf of another broker-dealer is partly secured after applying current calls, i.e., outstanding not more than 5 business days, for margin, marks to the market or other required deposits, include the credit balance contained in such account, increased by the deficit after applying current calls. (See Note E(2).)

(SEC Release 34-13565, May 18, 1977) (No. 78-1, May 1978)

When net capital is computed under the basic method and all customers' balances are netted for the weekly formula computation, see Item 10 /06.

/05 TEFRA Accounts Payable

Taxes and interest withheld from customers' accounts which are payable to the government under the Tax Equity and Financial Responsibility Act are to be included in the formula until paid over to the Internal Revenue Service.

(SEC Staff to NYSE) (No. 86-8, August 1986)

/06 Customer Payments Prior to Settlement Date

Credit balances received from customers prior to settlement date of purchase must be included as a credit in the formula and this treatment is not negated by segregation of the securities.

(SEC Letter to Gibraltar Securities, Inc., March 5, 1986) (No. 92-10, July 1992)

RESERVE FORMULA (EXHIBIT A - ITEM 1); CUSTOMER CREDIT BALANCES (continued)/07 Accrued Interest Payable on Customers' Credit Balance

Interest payable to customers is accrued on a daily basis and periodically credited to each customer's account. The total of such amounts, if not already credited to the customers' accounts, should be included in Item 1 of the reserve computation.

(SEC Staff to NYSE) (No. 91-5, June 1991)

## /08 (Reserved)

/09 Retail Customer's Purchasing Reverse Repurchase Agreements

If a broker-dealer enters into a hold in custody (HIC) repurchase agreement with a "retail" customer who had a pre-existing free credit balance with the broker-dealer, the liability of the broker-dealer will ordinarily be considered to be a free credit balance for purposes of SEA Rule 15c3-3. Customers that conduct their business with the broker-dealer on a delivery versus payment basis or customers with transactions that exceed \$1 million contract value would not be considered "retail" customers for purposes of this interpretation. Include as a credit the contract value of hold in custody repurchase agreement(s) with "retail" customers who had pre-existing credit balances of less than \$1 million prior to purchase. Open repurchase transactions with same customer, may be aggregated in determining the \$1 million limit.

(SEC Staff to NYSE) (NYSE Information Memo 87-38, October 28, 1987)

/10 Hold-In Custody Reverse Repos Purchased By Customers Lacking Proper Documentation

The original contract value plus any marks to market is to be included in customer credit balances when there is no written agreement between the parties or when a written agreement exists but lacks notice to the customer that the provisions of The Securities Investor Protection Act of 1970 do not protect the counterparty to the repurchase agreement.

(SEC Release No. 34-24778) (No. 92-1, January 1992)

RESERVE FORMULA (EXHIBIT A - ITEM 1); CUSTOMER CREDIT BALANCES (continued)/11 Customers Purchasing Commercial Paper

Notes payable to customers in connection with the issuance of the broker-dealer's own commercial paper may be excluded as credits in the reserve formula provided that adequate written disclosure is stated in the offering circular and on the confirmation as to the identity of the issuer and that these transactions are not covered by SIPC.

(SEC Staff to NYSE) (No. 92-1, January 1992)

/12 Principal Transactions with Customers

When a broker-dealer purchases securities as principal from its customer and the securities have not been resold, the credit balance due to the customer arising from his sale of securities to the broker-dealer may be excluded from the formula until the securities sold have been delivered by the customer.

(SEC Release 34-11497, June 26, 1975) (No. 92-10, July 1992)

When a broker-dealer receives non-negotiable securities purchased on a principal basis from its customer and the securities have not been resold, the credit balance in the customer account shall be excluded from the formula until the earlier of 30 calendar days after settlement date or the date appropriate papers are received that makes the securities negotiable.

(SEC Letter to Emanuel & Company, February 28, 1986) (No. 92-10, July 1992)

/13 Short Credits in Customers' Accounts

Credit balances due to customers' arising from sales of securities which are offset by debit balances arising from purchases in non-customers' accounts can be excluded from the formula.

(SEC Staff to NYSE)

RESERVE FORMULA (EXHIBIT A - ITEM 1); CUSTOMER CREDIT BALANCES (continued)/14 Loans Payable

Amounts representing unsecured or secured loans payable, which are not related to securities transactions of the lender and which are evidenced by written agreements are excluded from the formula.

(SEC Letter to Midwest Stock Exchange, Inc., July 28, 1976) (No. 78-1, May 1978)

/15 Unsecured Payables to Subsidiaries

Unsecured payables to subsidiaries representing loans to the broker-dealer are excluded from the formula when they are not related to securities transactions.

(SEC Staff to NYSE) (No. 78-1, May, 1978)

/16 Unearned Prepaid Investment Advisory Fees

Unearned prepaid investment advisory fees that are taken into income when earned, with the unearned balance being deferred and subject to refund, are excluded from the formula.

(SEC Letter to A. R. Schmeidler & Co. Inc., Dec. 4, 1976) (No. 78-1, May 1978)

/17 Unearned Prepaid Customers' Commissions

Unearned prepaid customers' commissions that are refundable are excluded from the formula.

(SEC Staff to NYSE) (No. 78-1, May 1978)

/18 Requirements for Including the Receipt of Customer Checks

Customer checks received by a broker-dealer for the account of the customer must be included in the firm's computation of reserve requirements on the day that they are received by the broker-dealer, its branch office or its agent (e.g. registered representative). Customer checks, though not yet deposited, are customer funds.

(SEC Letter to Marketing One Securities, Inc., December 9, 1992)  
(No. 94-5, May 1994)

RESERVE FORMULA (EXHIBIT A - ITEM 1); CUSTOMER CREDIT BALANCES (continued)/20 Checks Drawn In Excess of Bank Balances

Checks drawn in excess of a bank balance per the records of the broker/dealer must be included in the formula; whether or not the amount is used for customer payments. However, certain exceptions, described herein may apply.

/21 Two Or More Accounts Carried By The Same Bank-(Rescinded, No.02-7, August 2002)/211 Two Or More Accounts Carried By The Same Bank

Where two or more accounts, carried by a bank, are in reality one account which are separated for purposes that are immaterial to SEA Rule 15c3-3 under the Act, the amount of checks drawn in one account to the extent offset by positive balances in the other accounts need not be taken as a credit to the reserve formula provided the broker-dealer has an agreement with the bank acknowledging that:

1. except for bookkeeping and statement purposes, all such accounts are considered as one; and
2. the bank is authorized and agrees to treat all such accounts as a single account and apply the balances in one or more such account to any other debits in any other such account without further advice or instruction.

In addition, an opinion needs to be rendered by outside counsel that the bank agreement is legally binding under banking and other relevant federal and state laws and the opinion should include the effect of bankruptcy law or other equitable distribution principles on the agreement.

(SEC Staff to NYSE) (No. 02-7, August 2002)

/22 Checks Drawn On A Credit Line Account

The proceeds derived from writing checks to customers on credit line accounts (zero balance accounts) are included as a credit in the formula. However, unsecured firm borrowings from banks are not included in the formula provided they actually represent and are recognized by the banks as unsecured borrowings.

(SEC Letter to Shearson H.S. Inc., June 13, 1977) (No. 78-1, May 1978)

RESERVE FORMULA (EXHIBIT A - ITEM 1); CUSTOMER CREDIT BALANCES (continued)/23 Zero Balance or Overdraft Bank Accounts For Checks Issued to Vendors

Where a separate zero balance or overdraft checking account is maintained for payment of vendors' invoices for proprietary purchases, employee payroll checks and checks paid to suppliers, the overdraft may be excluded from the formula provided:

1. The checks are drawn on a separate and distinct bank account which is clearly unrelated to any account from which customers' checks are drawn;
2. Issuance of checks drawn on the account do not act to reduce a credit balance which would otherwise be included in the formula;
3. It is clearly demonstrated and the bank acknowledges in writing that the bank does not have the right to offset with any other account or customers' assets or collateral it may be holding for the broker-dealer; and
4. The overdraft is included as Aggregate Indebtedness if the broker-dealer is computing net capital requirements under the AI method.

These accounts are not to be netted with other bank accounts and credit balances must be included in the Reserve Formula if any of the checks or drafts drawn on the account could be:

1. Payable to customers or broker-dealers;
2. Paid in connection with a securities transaction; or
3. Deposited in another account unless only certified checks or wired funds are paid out of the receiving account.

(SEC Staff to NYSE) (No. 91-7, July 1991)

RESERVE FORMULA (EXHIBIT A - ITEM 1); CUSTOMER CREDIT BALANCES (continued)/24 Zero Balance or Overdraft Accounts Used in Connection With “Seg-Offset” Accounts

Overdrafts incurred in connection with “Seg-Offset” activities need not be included as credit items in the reserve formula computation under SEA Rule 15c3-3a provided:

1. No checks or drafts drawn on these accounts are payable to customers or broker-dealers;
2. No checks or drafts drawn on these accounts are paid in connection with securities transactions;
3. No checks or drafts drawn on these accounts could be deposited in another bank account (the receiving account) unless only wired funds are paid out of such receiving account;
4. Written assurance has been obtained from the bank, by the broker-dealer, that there are no cross liens to customer-related assets or collateral or any other accounts with the bank; and
5. The overdrafts are carried on the books of the broker-dealer and otherwise treated as ordinary liabilities.

(NYSE Letter to SEC Staff, March 29, 1990) (No. 91-7, July 1991)



RESERVE FORMULA (EXHIBIT A - ITEM 1); CUSTOMER CREDIT BALANCES (continued)/25 Funds Wired From “Seg-Offset” Accounts

A “Seg-Offset” account is understood to be an account which is used as a cash management technique to obtain federal funds for a fee which is lower than prevailing interest rates, in amounts equivalent to amounts in customers’ segregated funds accounts with a bank. For example, through this technique, a broker-dealer leaves funds on deposit in a segregated account or Special Reserve Bank Account with a bank that permits the broker-dealer to withdraw federal funds from another account at the bank (the “Seg-Offset” account) in an amount equal to the segregated account or the Special Reserve Account deposits.

Further, the bank has no cross lien against the segregated account or the Special Reserve account for any overdraft in the “Seg-Offset” account. The broker-dealer covers the federal funds withdrawal with a clearing house check drawn on a zero-balance account at another bank.

Federal funds paid out of a “Seg-Offset” account by federal wire need not be included in the reserve formula computation under SEA Rule 15c3-3a as credit items provided:

1. It is clearly demonstrated and the bank acknowledges in writing that the bank does not have the right to offset with any other account or customers' assets or collateral it may be holding for the broker-dealer; and
2. The Special Reserve Bank Account must be free of lien and subject to all the requirements of SEA Rules 15c3-3 (e) and (g). No withdrawal entry may appear on the bank statement unless supported by a reserve computation.

(NYSE Letter to SEC Staff, March 29, 1990) (No. 91-7, July 1991)

/26 The Term “Any Other Accounts” Defined

Where it is required that broker-dealers obtain written assurances from the bank that there are no cross liens to customer-related assets or collateral or any other accounts with the bank, the term “any other accounts” refers to accounts that are used to pay down credits which would normally be included in the reserve computation, such as customer credits, customer-related fails etc. Under these circumstances “any other accounts” would include operating bank accounts and require appropriate “cross lien” documentation. Accounts used to write checks to customers that reduce customer credits are included in “any other accounts.” Firm bank loan collateral at the same bank is not considered a customer-related asset.

(SEC Staff to NYSE) (No. 92-1, January 1992)

RESERVE FORMULA (EXHIBIT A - ITEM 1); CUSTOMER CREDIT BALANCES (continued)/27 Customer Credit Balances Related to Deposits in a Special Trust or Agency Account

Customer credit balances related to deposits in a special trust or agency account utilized pursuant to SEA Rule 15c2-4(b)(1) are excluded from the Reserve Formula.

(SEC Staff of DMR to NASD, September 1983)

/28 Postdated Customer Checks

A broker-dealer that receives postdated checks from customers for trades that have not settled must book said payments to the customer accounts, and, if a credit balance results, include said credits in Item 1 of the Reserve Formula.

(SEC Staff of DMR to NASD, September 1983)

/29 Credit Balances Arising from Limited Partnership Unit Sale

A broker-dealer selling secondary limited partnership units where the transactions create customer credit balances is not required to include such credits in the Reserve Formula, provided:

1. The broker-dealer, acting as agent or trustee for the persons who have the beneficial interest in the partnership unit, promptly deposits upon receipt the total purchase price of the transaction and the appropriate instruments of assignment in escrow, without interest, with a qualified bank escrow agent pending receipt of the comment of the general partner to the assignment.
2. Should consent not be forthcoming within 45 days after confirmation of the transaction, promptly return the escrow deposits to the depositor.
3. The qualified bank escrow agent holding the deposit must agree in writing to hold the escrow deposits for the persons having beneficial interest therein, and to transmit or return the deposits directly to persons entitled thereto when the appropriate event or contingency has occurred.

(SEC Staff of DMR to NASD, July 1986)

**(NEXT PAGE IS 2671)**

SEA Rule 15c3-3(Exhibit A - Item 1)/29

RESERVE FORMULA (EXHIBIT A - ITEM 2); CUSTOMER BANK LOANS/01 Customer Bank Loans

Report monies borrowed from banks collateralized by securities carried for the account of customers.

/02 Letters of Credit Secured by Customers' Securities, OCC Margin

Include, as required by Note B, the amount of Letters of Credit obtained by a member of Options Clearing Corporation which are collateralized by customers' securities, to the extent of the member's margin requirement at Options Clearing Corporation which is covered by such Letters of Credit.

(SEC Release 34-13565, May 18, 1977) (No. 78-1, May 1978)

/021 Letters of Credit Secured by Customer and Non-Customer Securities

When a letter of credit collateralized by both customer and non-customer securities is deposited with OCC as margin, the combined customer and non-customer margin requirement, up to the amount of the letter of credit must be included as a credit.

However, only the margin required for customers' margin is included as a debit at Item 13.

(SEC Staff to NYSE) (No. 90-11, December 1990)

/03 OCC Margin Requirement Met by Customers Securities

When customer available collateral is deposited with OCC to satisfy margin requirements the actual amount of margin required is included in the Formula as both a debit and a credit. Such deposit of securities is not considered a good control location.

(SEC Staff to NYSE) (No. 83-2, April 1983)

RESERVE FORMULA (EXHIBIT A - ITEM 2); CUSTOMER BANK LOANS (continued)

/031 Commingled Collateral As Options Clearing Corp Margin Deposit - (Rescinded, No. 02-7, August 2002)

/032 Commingled Collateral As Options Clearing Corp Margin Deposit

When customer, non-customer and qualified proprietary securities are commingled as margin on deposit with OCC the lesser of the customer margin requirement or the market value of the customers' securities pledged as collateral should be included as a credit in the reserve formula. In addition, the lesser of the customers' margin requirement or the total market value of the customers' and qualified proprietary securities pledged as collateral should be included as a debit in the reserve formula.

(SEC Staff to NYSE) (No. 02-7, August 2002)

/033 OCC Margin Required for a Broker-Dealer Introducing Options on an Omnibus Basis

A broker-dealer that introduces its customers' option transactions on an omnibus basis should include a debit and an offsetting credit in its reserve formula when customers' securities are deposited as collateral with the carrying/clearing broker-dealer to satisfy the margin requirement from the carrying/clearing broker-dealer. The amount to be included as a debit and a credit in the reserve formula is the lesser of the customers' margin requirement or the market value of the customers' securities deposited as collateral with the carrying/clearing broker-dealer.

The introducing omnibus broker-dealer should include a debit in its reserve formula (without an offsetting credit) when cash and/or qualified proprietary securities are deposited as collateral with the carrying/clearing broker-dealer to satisfy the margin requirement from the carrying/clearing broker-dealer. The amount to be included as a debit in the reserve formula is the lesser of the customers' margin requirement or the cash and/or the market value of qualified proprietary securities deposited as collateral with the carrying/clearing broker-dealer.

(SEC Staff to NYSE) (No. 05-8, April 2005)

/04 Letters of Credit Secured by Customers' Securities, Collateralizing Securities Borrowed

Include as a credit item the market value of securities borrowed from any person when such securities borrowed are collateralized by letters of credit which are secured by customer margin securities.

(SEC Release 34-18737, May 13, 1982)

SEA Rule 15c3-3(Exhibit A - Item 2)/04

RESERVE FORMULA (EXHIBIT A - ITEM 2); CUSTOMER BANK LOANS (continued)/05 Firm Bank Loans Secured by Non-Proprietary Securities

The market value of securities lodged in firm bank loan shall be included in the formula when the broker or dealer does not have a corresponding proprietary long position, or they do not allocate to the account of a general partner, a director or principal officer of the broker or dealer who is not a customer under SEA Rule 15c3-3(a)(1).

(SEC Letter to NYSE, May 5, 1981) (No. 81-3, July 1981)

/051 Amount to be Included

When non-proprietary securities are lodged in a firm bank loan, the amount to be included in the formula is the lesser of the market value of customers' securities or the total amount of firm bank loans at the particular bank.

(SEC Staff to NYSE) (No. 86-8, August 1986)

/06 Offset Debit for Customers' Uncleared Checks Not Permitted

Uncleared customers' checks may not be included as a debit item in the formula as a debit offset to bank loans which cannot be reduced (to obtain customers' securities collateralizing firm bank loans) until the customers' checks clear.

Such uncleared checks may, however, be deposited in a reserve bank account to satisfy a reserve deposit requirement. After clearance and a subsequent computation of the formula they may be withdrawn (if no longer required) and used to reduce the bank loan.

(SEC Letter to First Monmouth Securities Corp., June 13, 1984)  
(No. 92-10, July 1992)

/07 Customer Bank Loans Secured by Non-Customers' Securities

When non-customers' securities are included as collateral to a customer bank loan the total bank loan shall be included as a credit in the formula.

The related non-customer debit shall be excluded. In order to avoid a possible deposit requirement due to this situation a separate non-customer bank loan should be established in which event the non-customer bank loan and the non-customer debit would both be excluded from the formula.

(SEC Staff to NYSE) (No. 78-1, May 1978)

SEA Rule 15c3-3(Exhibit A - Item 2)/07

RESERVE FORMULA (EXHIBIT A - ITEM 2); CUSTOMER BANK LOANS (continued)/08 Principal Sales to DVP Customers

Where securities which have been sold as principal to deliver versus payment customers are lodged in a firm bank loan, the short market value is included in the formula rather than the loan value.

If the securities are placed in a customer bank loan, then the bank loan amount shall be included in the formula.

(SEC Staff to NYSE) (No. 78-1, May 1978)

/09 Non-Purpose Loans

Include the amount of bank loans collateralized by securities carried long as margin for non-purpose loan accounts when a separate bank loan collateralized exclusively by non-purpose loan account securities has not been established.

Non-purpose loan receivables are not to be included as debit items in the formula.

(SEC Letter to NYSE, April 20, 1983) (No. 84-9, September 1984)

/10 Customers' Securities Not To Be Subjected To Cross Liens

When a broker-dealer pledges customer securities to a customer loan and also has proprietary and/or non-customer loans with the same pledgee, it must assure itself that the pledgee does not have a lien upon customers collateral for any loan other than for customers.

If a cross lien exists and could place customers' securities at risk, there shall be included in the formula the amount of the customer loan, plus the lower of the value of customer collateral in excess of the amount of the loan or the amount of the loans for other than customers.

The full market value of all customers' collateral (including agreement to pledge collateral) within the possession and control of the lender shall be included if any of the loans or liabilities are for unspecified amounts or unlimited liabilities (as in the case of contingencies or guarantees).

The mere inclusion of additional credits in the formula computation will not serve to relieve any violation of the hypothecation Rules 8c-1 or 15c2-1. See interpretation 15c3-3(a)(1)/04.

(SEC Letter to NYSE, May 3, 1985)

SEA Rule 15c3-3(Exhibit A - Item 2)/10

RESERVE FORMULA (EXHIBIT A - ITEM 2); CUSTOMER BANK LOANS (continued)/11 Customer Bank Loan Allocating to Stock Borrow

See interpretation 15c3-3(Exhibit A – Item 11)/031.

/12 Margin Related to Security Futures Products Deposited with a Clearing Agency or a Derivative Clearing Organization

The provisions of the interpretations under SEA Rule 15c3-3 (Exhibit A – Item 2) related to the margin required and on deposit with the OCC for all option contracts written or purchased in customer accounts can be applied to the margin required and on deposit with a clearing agency or a derivatives clearing organization for all security futures products written, purchased or sold in customer security accounts under the provisions of SEA Rule 15c3-3 (Exhibit A - Note G) for purposes of the reserve formula.

(SEC Staff to NYSE) (No. 05-8, April 2005)

SEA Rule 15c3-3(Exhibit A - Item 2)/12

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RESERVE FORMULA (EXHIBIT A - ITEM 3); CUSTOMER SECURITY LOANS/01 Customer Security Loans

Include monies received as collateral against the loan of securities including any deficits required by Note C (i.e., the amount by which the market value exceeds the value of collateral received), which are directly attributable to securities held long for customers.

See Item 3 /02 and /03 when an allocation method is required to determine which securities loans relate to customers.

/011 Stock Loan Deficits - Broker by Broker Basis

Stock loan deficits shall be determined on a broker-by-broker basis.

(SEC Release 34-13565, May 8, 1977) (SEC Staff to NYSE)  
(No. 78-1, May 1978)

/012 Stock Loan Deficits Promptly Collected

Stock loan deficits may be excluded if the broker-dealer issues a mark to market call by 11:00 a.m. the business day following the computation and receives payment that day.

(SEC Letter to Bear, Stearns & Co., September 16, 1980)  
(No. 81-9, December 1981)

RESERVE FORMULA (EXHIBIT A - ITEM 3); CUSTOMER SECURITY LOANS (continued)/02 Securities Loaned Allocation Method

When it is impractical or unduly burdensome to determine which securities loans relate to securities held long for customers an appropriate allocation may be made on a conservative basis to accomplish maximum protection for customers.

Sample Allocation:

- A determination shall be made of the total contract value of all securities loaned and any deficits on securities loaned;
- Such amount shall be reduced by the contract value and deficits on securities loans which are not allocable to securities held long for customers (see Item 3 /03); and
- The remaining amount shall be included in the formula. See Item 3 /012 for the treatment of stock loan deficits that are promptly collected.

(SEC Release 34-9922, January 2, 1973)

/03 Securities Loans Not Allocable to Customers

Securities loans and deficits on securities loans allocable to the accounts shown below are not allocable to customers and shall not be included in the formula. All other allocations are deemed to be customers.

- S/L vs. Non-Customer Accounts
- S/L vs. Proprietary Accounts
- S/L vs. Securities Borrowed

**(NEXT PAGE IS 2691)**

RESERVE FORMULA (EXHIBIT A - ITEM 4); CUSTOMER FAILS TO RECEIVE/01 Customer Fails to Receive

Include the contract value of all securities failed to receive, and deficits on securities failed to receive outstanding more than 30 calendar days as required by Note D and /01, which are directly attributable to customers' accounts or transactions.

See (Exhibit A – General) /03 and /06 when an allocation method is required to determine which fail to receive contracts relate to customers.

/011 Liquidating Deficits on Customer Fails to Receive

Deficits in customer fail to receive contracts over 30 calendar days old shall be determined on a contract by contract basis.

(SEC Release 34-13565, May 18, 1977)  
(SEC Staff to NYSE) (No. 78-1, May 1978)

/02 Prepaid Fails to Receive

The market value of short securities positions resulting from prepaid fails to receive shall be included in the formula unless the prepaid short is located in a valid control location as determined by the SEC on appropriate application, in which event it shall not be included in the formula.

See interpretation 15c3-3(c)(7)/02 regarding Accommodation Transfers.

(SEC Letter to NASD, July 16, 1974)

/03 Possession or Control Requirement vs. Non-Customer Short Treated as Fail to Receive – Rescinded (FINRA Regulatory Notice 15-25)

RESERVE FORMULA (EXHIBIT A - ITEM 4); CUSTOMER FAILS TO RECEIVE (continued)/04 Continuous Net Settlement Balances (CNS) – Fails to Receive

When computing the reserve formula calculations, broker-dealers must adjust any net credit balance payable to CNS to reflect the gross credit amounts representing the short market value of fails to receive and the gross debit amounts representing the long market value of fails to deliver.

The gross market value of fails to receive shall be included as a credit item in the reserve formula computation in accordance with the requirements of Rule 15c3-3(Exhibit A - Item 4). The gross market value of fails to deliver shall be included as a debit item in the reserve formula computation in accordance with the requirements of Rule 15c3-3(Exhibit A - Item 12).

(SEC Letter to Dupont, Glore Forgan, Inc., Feb. 27, 1973)

(SEC Staff to FINRA) (FINRA Regulatory Notice 13-44)

/05 Fail to Receive of Government Securities, Commercial Paper, Bankers Acceptances and Certificates of Deposit

Broker-dealers computing net capital under the alternative method shall exclude amounts payable for government securities, commercial paper, bankers acceptances and certificates of deposit not yet received from the issuer or its agent and any related debit items for three business days, as specified at subparagraph (f)(5)(iii) of SEA Rule 15c3-1.

(SEC Staff to NYSE)

RESERVE FORMULA (EXHIBIT A - ITEM 4); CUSTOMER FAILS TO RECEIVE (continued)/06 Fail to Receive Allocation Method

When it is impractical or unduly burdensome to determine which fails to receive relate to customers' accounts or transactions an appropriate allocation may be made on a conservative basis to accomplish maximum protection for customers.

Sample Allocation:

- A determination shall be made of the total contract value of all fails to receive and liquidating deficits on fails to receive outstanding more than 30 calendar days;
- Such amount shall be reduced by the contract value of fails to receive not allocable to customers, including the liquidating deficits on fails to receive outstanding more than 30 calendar days not allocable to customers (see Item 4 /07); and
- The remaining amount shall be included in the formula.

(SEC Release 34-9922, January 2, 1973)

/07 Fail to Receive Not Allocable to Customers

Fails to receive and liquidating deficits on fails to receive outstanding more than 30 calendar days allocable to the accounts shown below are not allocable to customers and shall not be included in the formula. All other accounts are deemed customers.

- F/R vs. Non-Customer Accounts
- F/R vs. Proprietary Accounts
- F/R vs. Fail to Deliver or Securities Borrowed of the same quantity and issue when net capital is computed under the alternative method provided debits for fail to deliver and securities borrowed are also excluded from the formula and 1% of such debit values are deducted in the alternative net capital computation. Otherwise the fail to receive value shall be included in the formula.

SEA Rule 15c3-3(Exhibit A - Item 4)/07

RESERVE FORMULA (EXHIBIT A - ITEM 4); CUSTOMER FAILS TO RECEIVE (continued)/08 Reduction of Money Market Funds Payables by Amounts Receivable from Money Market Funds

Money Market fund payables resulting from customer purchases are includable in the Reserve Formula; however, the payables can be reduced by certain receivables from the same or different funds. See interpretation 15c3-3(Exhibit A - Item 10)/08.

(SEC Staff to NYSE) (No. 92-13, December 1992)

/081 Netting of Money Market Fund Payables by Amounts Receivable from Money Market Funds

Money market fund payables resulting from customer purchases can be reduced by certain receivables from the same or different money market funds. A broker-dealer can net receivables and payables between the same family of money market funds, but cannot net receivables and payables between unrelated families of money market funds.

(SEC Staff to NYSE) (No. 02-7, August 2002)

RESERVE FORMULA (EXHIBIT A - ITEM 5); CREDIT IN FIRM ACCOUNTS/01 Credit in Firm Accounts - Amount to be Included

Include in the formula the market value of uncovered or partially covered short sales which are attributable to principal sales to customers.

(SEC Letter to NASD, July 16, 1974)

/02 Proprietary vs. Customer Allocation

When a broker-dealer uses an allocation method to determine proprietary vs. customer securities, include in the formula the short market value of proprietary securities which allocate to customer longs.

(SIA Transcript SEA Rule 15c3-3)

/03 Possession or Control Requirement vs. Non-Customer Short

When customers' fully-paid or excess margin securities are attributable or allocable to short positions in non-customer accounts, such short market value shall be included in the customer reserve formula computation under SEA Rule 15c3-3(Exhibit A - Item 5).

Note: See SEA Rule 15c3-3(d)(4) for possession or control requirements.

(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

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SEA Rule 15c3-3(Exhibit A - Item 5)/03

RESERVE FORMULA (EXHIBIT A - ITEM 6); SHORT STOCK DIVIDENDS AND DISTRIBUTIONS

/01 Short Stock Dividends and Distributions

Include in the formula the short market value of stock dividends, stock splits and similar distributions outstanding over 30 calendar days.

(SEC Staff to NYSE)



RESERVE FORMULA (EXHIBIT A - ITEM 7); SHORT SECURITY DIFFERENCES/01 Short Security Differences

Include in the formula the market value of short security count differences:

- Over 30 calendar days old when net capital is computed under the basic method; or
- Over 7 business days old when net capital is computed under the alternative method as required by SEA Rule 15c3-1(f)(5)(ii).

(SEC Staff to NYSE) (No. 78-1, May 1978)

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SEA Rule 15c3-3(Exhibit A - Item 7)/01

RESERVE FORMULA (EXHIBIT A - ITEM 8); SUSPENSE ACCOUNTS/01 Suspense Accounts

Include in the formula the market value of short securities and credits (not to be offset by longs or by debits) contained in all suspense, difference, DK and similar accounts used to record “suspense” items:

- Over 30 calendar days old when net capital is computed under the basic method; or
- Over 7 business days old when net capital is computed under the alternative method, as required by SEA Rule 15c3-1(f)(5)(ii).

(SEC Staff to NYSE) (No. 78-1, May 1978)

The phrase “credits ... contained in all suspense, difference, DK and similar accounts used to record suspense items” includes all suspense credits and unclaimed dividend credits regardless of whether they have been identified as non-customer credits.

(SEC Letter to Checkers Simon & Rosner, November 8, 1988) (No. 92-10, July 1992)

/02 Short Securities With Related Credit Balances

When there exists a short security suspense position and a related credit balance, include in the formula (in accordance with the timeframes stated at Item 8 /01) the greater of the market value of the short security or the related credit balance.

(SEC Staff to NYSE)

/03 Unclaimed Dividends and Interest Payable

Unclaimed cash dividends and interest payable shall be considered as suspense items and shall be included in the formula if over 30 calendar days old under the basic capital method or if over 7 business days old under the alternative capital method.

(SEC Staff to NYSE) (No. 84-4, July 1984)

RESERVE FORMULA (EXHIBIT A - ITEM 9); UNCONFIRMED TRANSFERS/01 Unconfirmed Transfers

Include in the formula the market value of securities in transfer for more than 40 calendar days when the broker-dealer has not received from the issuer or transfer agent within such 40 day period:

- A written acknowledgement that the securities are in the possession of the issuer or agent; or
- A revalidation of the window ticket from the transfer agent.

(SEC Staff to NYSE)

/02 Confirmed Transfer

When an item of transfer is confirmed in writing within the 40 calendar day period following transmittal to the transfer agent or issuer, thereafter it shall not be included in the formula.

Note however, that SEA Rule 17a-13(b)(3) requires the verification of all securities in transfer over 30 days at least once each calendar quarter. Failure to obtain such confirmation requires that the item be treated as a short security difference. (See Item 7 /01.)

(SEC Letter to Stifel, Nicolaus & Co., Inc., April 27, 1987)

**(NEXT PAGE IS 2721)**

RESERVE FORMULA (EXHIBIT A - ITEM 10); CUSTOMER DEBIT BALANCES/01 Customer Debit Balances

Determine the total of the net debit balances contained in customer's cash accounts and margin accounts which are fully secured by salable securities, i.e., a ready market exists as stipulated by SEA Rule 15c3-1(c)(11) and there are no statutory, regulatory or contractual arrangements or other restrictions inhibiting the public offer or sale of the securities.

When net capital is computed under the basic method and customers' debit and credit balances are netted for the weekly formula computation, see Item 10 /06.

/011 Drafts Receivable on Customer Debits

Include the debit in a related draft receivable account when immediate credit has not been received on draft shipments of securities purchased by customers when the debit in the customer's account for the purchase of the securities so drafted has been eliminated.

(SEC Release 34-9922, January 2, 1973)

/012 Partly Secured Accounts

For a margin account which is partly secured after applying current margin calls outstanding and in the case of a margin account where a margin call is outstanding more than 5 business days, the amount which should be included in the Reserve Formula should be the debit balance in such account reduced (or if a credit balance, increased) by:

1. The deficit in such account after the application of current margin calls outstanding; and
2. The amount which results from applying the appropriate haircut, set forth in SEA Rule 15c3-1(c)(2)(vi) or (f), to the market value of the securities in the account.

With respect to a partly secured cash account, which has a transaction liquidating to a deficit and which is not current within the meaning of Regulation T of the Board of Governors of the Federal Reserve System or which has more than one extension thereunder, the amount included in the Reserve Formula should be the debit balance in the partly secured cash account reduced (or if a credit balance, increased) by:

RESERVE FORMULA (EXHIBIT A - ITEM 10); CUSTOMER DEBIT BALANCES (continued)/012 Partly Secured Accounts (continued)

1. The deficit related to the transactions which are causing such deficit; and
2. The amount which results from applying the appropriate haircut, set forth in SEA Rule 15c3-1(c)(2)(vi) or (f), to the market value of the securities transactions which are causing the deficit.

When net capital is computed under the basic method and all customers' balances are netted for the weekly formula computation, see Item 10 /06.

(SEC Letter to NYSE, December 9, 1975) (SEC Staff to NYSE)

/0120 Customers' Unsecured/Partly Secured Deficit Offset by Correspondent's Deposits

A carrying broker-dealer does not have to reduce customers' debits from the customer reserve formula computation arising from an introducing broker-dealer's customers' unsecured or partly secured deficits provided sufficient deposits were received from the introducing broker-dealer which can legally be applied to cover (fully secure) the applicable deficits. However, the amount of the introducing broker-dealer's deposits maintained at the carrying broker-dealer must be included in the PAB reserve formula computation of the carrying broker-dealer.

(SEC Staff to NYSE) (No. 02-3, February 2002)  
(SEC Staff to FINRA) (FINRA Regulatory Notice 15-25)

/013 Special Omnibus or Similar Accounts

When a special omnibus account maintained in compliance with the requirements of Section 10 of Regulation T or similar accounts carried on behalf of another broker-dealer is partly secured after applying current calls, i.e., outstanding not more than 5 business days, for margin, marks to the market or other required deposits, include the debit balance contained in such account, reduced by the deficit after applying current calls. (See Note E(2).)

When net capital is computed under the basic method and customers' debit and credit balances are netted for the weekly formula computation. (See Item 10 /06).

(SEC Release 34-13565, May 18, 1977) (No. 78-1, May 1978)

RESERVE FORMULA (EXHIBIT A - ITEM 10); CUSTOMER DEBIT BALANCES (continued)/014 Accrued Interest Receivable

Include as a debit accrued interest receivable on customers' fully secured margin account debit balances.

(SEC Staff to NYSE) (No. 78-1, May 1978)

/015 Dividends and Interest Receivable from DTC

Include in Item 10, debit balances due from DTC representing dividends and interest receivable not outstanding for more than 5 business days which are allocable to credits in the formula, resulting from the firm's crediting its customer account for the same dividends and interest.

(SEC Letter to NYSE, March 19, 1984) (No. 84-3, April 1984)

/016 Household Members, Relatives and Affiliated Persons of the B/D

Debit balances contained in the cash and margin accounts of household members and other persons related to principals of the broker-dealer, or contained in the accounts of affiliated persons of the broker-dealer shall be excluded, unless the broker-dealer can demonstrate that such debit balances are directly related to credit items in the formula. (See Note E(4) and Note E(5).)

When net capital is computed under the basic method and customers' debit and credit balances are netted for the weekly formula computation, see Item 10 /06.

/017 Debit Balances in Excess of \$50,000

In accordance with Note E(5) include in Item 10 the first \$50,000 of the debit balance in a margin account that has a debit in excess of \$50,000 of a single customer (other than in an omnibus account); in related accounts under common control of a single customer; or subject to cross guarantees, in which case the debit balances shall be aggregated.

The portion of the debit balance remaining shall also be included, provided the total amount included is not in excess of 25% of the broker-dealer's tentative net capital, i.e., the net capital computed in accordance with SEA Rule 15c3-1 prior to the application of securities haircuts; and

If any portion of the debit balance remains, i.e., the portion in excess of 25% of tentative net capital, it shall be excluded, unless the broker-dealer can demonstrate that the debit balance is directly related to credit items contained in the formula. (See Note E(5).)

(SEC Staff to NYSE)

SEA Rule 15c3-3(Exhibit A - Item 10)/017

RESERVE FORMULA (EXHIBIT A - ITEM 10); CUSTOMER DEBIT BALANCES (continued)/018 Customer and Non-Customer Interest in a Single Account

When both a “customer” and a “non-customer” have a participation interest in a single account with a debit balance, in accordance with Note E(6) include the percentage of the debit balance as follows:

<u>Customer Interest</u>	<u>Amount of Debit Included</u>
Greater than 95%	The entire debit
Between 50% and 95%	% attributable to customer <u>1/</u>
Less than 50%	None <u>1/</u>

1/ If the broker-dealer can demonstrate that the debit balance is directly related to credit items in the formula, the entire debit shall be included. (See Note E(5))

When net capital is computed under the basic method and customers’ debit and credit balances are netted for the weekly formula computation, see Item 10 /06.

/019 Partial Identification of Debits With Credits in The Formula

Debit balances in excess of 25% of the broker-dealer’s tentative net capital which are shown to be directly related to credits included in the formula computation may be considered as a reduction of the non-allowable debit amount. Where this application reduces the remaining debit below 25% of tentative net capital, the balance of the debit may also be included in the computation.

(SEC Staff to NYSE) (No. 91-5, April 1991)

“Debit balances in excess of 25% of tentative net capital, (TNC)” refers to the total debit balance in a single customer's account and not the portion of the debit in excess of 25% of the broker-dealer’s TNC.

(SEC Staff to NYSE)

/02 Estate Account Debit Balances

Debit balances in Estate accounts are to be included or excluded in accordance with Note E(6).

(SEC Staff to NYSE) (No. 92-10, July 1992)

SEA Rule 15c3-3(Exhibit A - Item 10)/02

RESERVE FORMULA (EXHIBIT A - ITEM 10); CUSTOMER DEBIT BALANCES (continued)/03 Accrued Trade Date Commissions

Commissions receivable accrued on a trade date basis by broker-dealers using settlement date accounting shall not be included in Item 10 in the Reserve Formula.

(SEC Staff to NYSE)

/031 Debit Balances In Customers' Spot Commodity Accounts

Debit balances in fully secured spot commodity accounts of customers shall not be included in Item 10.

However, such debits may be used to reduce a credit balance of the same customer reportable at Item 1. (See Item 1 /02, /021 and /022.)

(SEC Letter to E.F. Hutton & Company, Inc., August 25, 1980) (No. 84-3, April 1984)

/032 Non-Purpose Loans

Non-purpose loan receivables shall not be included.

When a separate bank loan is collateralized by securities held as margin for a non-purpose loan, the bank loan credit is not reportable at Item 2. (See Item 2 /05.)

(SEC Letter to NYSE, April 20, 1983) (No. 84-9, September 1984)

/033 Unsecured Customer Short Positions

For firm longs allocable to unsecured customer shorts, both sides are excluded from the formula.

(SEC Staff to NYSE) (No. 78-1, May 1978)

/034 Accrued Custodial Fees Receivable - IRA Accounts

Accrued custodial fees receivable for IRA custody accounts may be included under Item 10 provided the individual fees are secured by and chargeable to each related IRA custody account.

(SEC Staff to NYSE) (No. 90-11, December 1990)



RESERVE FORMULA (EXHIBIT A - ITEM 10); CUSTOMER DEBIT BALANCES (continued)/04 Debit Balances in Margin Accounts - Sample Computation

Debit balances in margin accounts shall be reduced by the amount by which a specific security (other than an exempted security) which is collateral for margin accounts exceeds in aggregate value 15 percent of all securities which collateralize all margin accounts receivable; provided, however, the required reduction shall not be in excess of the amounts of the debit balance required to be excluded because of this concentration rule. A specific security is deemed to be collateral for a margin account only to the extent it represents in value not more than 140 percent of the customer debit balance in a margin account.

Example:

Total margin debits	\$50,000,000
Margin securities (140%)	70,000,000
15% of margin securities	10,500,000
Total value of stock XYZ included in margin securities	12,000,000
Excess of value over 15% limit	1,500,000
Reduction in margin debits (\$1,500,000 divided by 140%)	<u>1,071,429</u>

(SEC Staff to NYSE) (No. 78-1, May 1978)

RESERVE FORMULA (EXHIBIT A - ITEM 10); CUSTOMER DEBIT BALANCES (continued)/06 Weekly Computation - Netting of Customers' Debit and Credit Balances

When net capital is computed under the basic method and customers' debit and credit balances are netted for the weekly formula computations (other than at month-end, see interpretation 15c3-3(Exhibit A - General)/01), a net debit balance shall be reduced (and a net credit balance at Item 1 of this formula computation shall be increased) by the amount determined at the prior month-end that reflected customers' credit and debit balances separately, for the following:

- The reduction required for customers' unsecured debts, accounts doubtful of collection [see (Exhibit A – General)/01)] and partly secured accounts (see Item 10 /012);
- The reduction required because deficits exist in special omnibus accounts or similar accounts [see Item 10 /013 and (Exhibit A - Note E)(2)];
- The reduction required because an account with a debit balance includes a participation interest of a “non-customer” [see (Exhibit A - Note E)(6)];
- The reduction required for household members and other persons related to principals or affiliated persons of the broker-dealer [see (Exhibit A - Note E)(4)];
- The reduction required because a single customer's debit balance exceeds 25% of the broker-dealer's tentative net capital [see (Exhibit A - Note E)(5)];
- The reduction required because of concentrated collateral for margin debits [see (Exhibit A - Note E)(1)]; and
- The 1% required reduction of aggregate debits [see (Exhibit A - Note E)(3)];

/07 Debits in Customers' Accounts Collateralized by Control or Restricted Stock

Debit balances in customers' accounts collateralized by restricted securities may only be included in the Reserve Formula computation to the extent they are secured by securities that can be publicly sold. Accounts that are partly secured are treated under interpretation 15c3-3 (Exhibit A - Item 10)/02. Broker-dealers will bear the burden of proof in demonstrating that the restricted securities can be publicly sold. The Exchange may require a legal opinion where the value of such securities is a material amount.

(SEC Staff to NYSE) (No. 92-1, January 1992)

SEA Rule 15c3-3(Exhibit A - Item 10)/07

RESERVE FORMULA (EXHIBIT A - ITEM 10); CUSTOMER DEBIT BALANCES (continued)/08 Customer Redemptions of Money Market Funds

Debit balances in customers' accounts arising from prepayments made by a broker-dealer on behalf of customers which are expected to be covered the next day upon settlement of such customers' redemptions, are treated as receivable from the fund and is not to be included as a debit in the Reserve Formula. This applies even if the broker-dealer maintains the money market fund position long in the customer's account, and the customer's account is credited for the redemption on settlement date. However, the debit may serve to reduce certain credit balances. (See interpretation 15c3-3(Exhibit A - Item 4)/08.)

The term "prepayments" would include the actual payment of funds to or on behalf of customers in the form of a check or wire (e.g., credit card charges or checks written by customers), which are covered by customers' instructions to redeem their money market fund position.

(SEC Staff to NYSE) (No. 92-13, December 1992)

/081 Netting of Money Market Fund Payables by Amounts Receivable from Money Market Funds

Money market fund payables resulting from customer purchases can be reduced by certain receivables from the same or different money market funds. A broker-dealer can net receivables and payables between the same family of money market funds, but cannot net receivables and payables between unrelated families of money market funds.

(SEC Staff to NYSE) (No. 02-7, August 2002)

SEA Rule 15c3-3(Exhibit A - Item 10)/081

RESERVE FORMULA (EXHIBIT A - ITEM 10); CUSTOMER DEBIT BALANCES (continued)/09 Credit Extended Upon Exercise of Employee Stock Option

When a broker-dealer exercises an employee stock option for a customer, it must have acknowledgement from the issuer that a freely transferable, readily salable and marketable security in negotiable form will be promptly delivered to the broker-dealer within 15 business days after exercise notice is given to the issuer (when acknowledgment is given by telephone, the condition should be restated in the transmittal to the issuer). The exercise shall be subject to the following:

1. When the security to be received from the exercise has been sold and is not received from the issuer within 15 business days after notice of exercise has been given, the position shall be subject to a cash margin deficiency charge computed without allowing any value for the security not received and is subject to the buy-in provisions under SEA Rule 15c3-3(m) unless an extension of time is requested and approved under SEA Rule 15c3-3 (n);
2. When the security to be received from the exercise has not been sold and is not received within 15 business days after notice of exercise has been given, any related debit balance shall be treated as an unsecured debit.

(SEC Staff to NYSE) (No. 96-3, April 1996)

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RESERVE FORMULA (EXHIBIT A - ITEM 11); SECURITIES BORROWED FOR CUSTOMER TRANSACTIONS

/01 Securities Borrowed for Customer Transactions

Include in the formula the contract value of securities borrowed from any person to effectuate short sales by customers and to make delivery on customers' securities failed to deliver, or securities borrowed that allocate to customers accounts. Borrowed securities must be fully secured by cash, "qualified securities" or a secured letter of credit to be includible in the Reserve Formula. SEA Rule 15c3-1 (c)(2)(iv)(G) requires a net capital deductions equal to 1% of the securities borrowed collateralized by an irrevocable letter of credit under both the basic and alternative methods of net capital computations.

If securities borrowed are collateralized by a letter of credit that is secured:

1. By proprietary securities, such securities shall be "qualified securities"; or
2. By customer margin securities, the value of the borrowed securities shall also be included in the formula as a credit at Item 2.

Securities borrowed from customers that do not comply with the requirements of subparagraph (b)(3) of SEA Rule 15c3-3 shall not be included in the formula and any securities borrowed from institutions or other customers shall be held in possession or control until returned to the lender.

(SEC Release 34-18737, May 13, 1982) (SEC Staff to NYSE)

/02 Securities Borrowed Allocation Method

When it is impractical or unduly burdensome to determine which securities borrowed relate to customers transactions an appropriate allocation may be made on a conservative basis to accomplish maximum protection for customers.

Sample Allocation:

- A determination shall be made of the total contract value of all securities borrowed which are fully secured by deposits of collateral as stated at Item 11 /01;
- Such amount shall be reduced by the contract value of securities borrowed which are not allocable to customers (see Item 11 /03); and
- The remaining amount shall be included in the reserve formula.

(SEC Release 34-9922, January 2, 1973)

SEA Rule 15c3-3(Exhibit A - Item 11)/02

RESERVE FORMULA (EXHIBIT A - ITEM 11); SECURITIES BORROWED FOR CUSTOMER TRANSACTIONS (continued)

/03 Securities Borrowed Not Allocable to Customers

Securities borrowed allocable to the locations shown below are not allocable to customers and shall not be included in the formula. SEA Rule 15c3-1(c)(2)(iv)(G) requires a net capital deduction equal to 1% of the securities borrowed collateralized by an irrevocable letter of credit under both the basic and alternative methods of net capital computations.

- S/B vs. Non-Customer Accounts
- S/B vs. Proprietary Accounts
- S/B vs. Fail to Receive of the same quantity and issue when net capital is computed under the alternative method provided credits for fails to receive of the same quantity and issue “matched” against fails to deliver and securities borrowed are also excluded from the formula and 1% of the securities borrowed and fail to deliver debit values are deducted in the alternative net capital computation. Otherwise the securities borrowed value shall be included in the formula.
- S/B vs. Stock Dividends Receivable
- S/B vs. Securities Loaned
- S/B vs. Transfer unless the transfer item had previously allocated to a customer fail to deliver in which event the market value of the securities borrowed shall be included in the formula. (Note that the market value of unconfirmed transfer items over 40 calendar days old must be included as a credit in the reserve formula at Item 9.)
- S/B vs. All Other Physical Control Locations unless it can be demonstrated that the securities were borrowed:
  1. To complete a delivery arising from a customer related fail to receive or a customer's short position;
  2. The borrowed securities were received too late in the day to be used or returned;
  3. The borrowed securities were actually used for the purpose for which they were borrowed and returned to the lending broker-dealer the business day following receipt;
  4. Once the treatment is elected it is consistently applied and documented proof is retained for at least three years.

SEA Rule 15c3-3(Exhibit A - Item 11)/03

RESERVE FORMULA (EXHIBIT A - ITEM 11); SECURITIES BORROWED FOR CUSTOMER TRANSACTIONS (continued)

/03 Securities Borrowed Not Allocable to Customers (continued)

In which event such securities borrowed may be treated as allocable to customers and included in the formula at contract value.

(SEC Staff to NYSE) (No. 85-5, May 1985)

/030 Returning Securities Borrowed Focusing Around Bank Holidays

In determining the includable debit items in the reserve formula related to securities borrowed which allocate versus physical control locations, a broker-dealer can return borrowed securities on Tuesday in lieu of Monday if it is unable to process the return because securities exchanges are open on Monday but it is also a domestic or foreign bank holiday.

(SEC Staff to NYSE) (No. 02-7, August 2002)

/031 Securities Borrowed versus Bank Loan

The market value of securities borrowed that allocate to bank loan should be included both as a debit and a credit in the reserve formula. Further, if the stock borrow allocates to a customer bank loan, the market value to be included as a credit is in addition to the amount of the customer bank loan balance.

(SEC Staff to NYSE) (No. 96-4, November 1996)



RESERVE FORMULA (EXHIBIT A - ITEM 11); SECURITIES BORROWED FOR CUSTOMER TRANSACTIONS (continued)

/04 Banks and Institutions are Customers

Banks and financial institutions, other than broker-dealers, are defined as customers for purposes of SEA Rule 15c3-3. However if securities are borrowed from them and the appropriate securities borrowed agreements are on file which includes the language contained in SEA Rule 15c3-3(b)(3)(i), (ii), (iii) and (iv), then the securities positions should be allocated as securities borrowed. If the appropriate securities borrowed agreements are not on file or the agreements lack the needed language the securities should be allocated as customers' fully paid securities with no debit included in the formula.

(SEC Staff to NYSE) (No. 78-1, May 1978)

/041 Federal Reserve Bank as a Non-Customer

The Federal Reserve Bank is a non-customer when a broker-dealer borrows U.S. Government securities from it for the purpose of eliminating fails to deliver of such securities.

(SEC Staff to NYSE) (No. 78-1, May 1978)

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RESERVE FORMULA (EXHIBIT A - ITEM 12); FAIL TO DELIVER OF CUSTOMER SECURITIES

/01 Fail to Deliver of Customer Securities

Include the contract value of securities failed to deliver not more than 30 calendar days old which are directly attributable to customers' accounts or transactions.

See (Exhibit A – General)/03 and (Exhibit A - Item 12)/07 when an allocation method is required to determine which fail to deliver contracts relate to customers.

/011 Fail to Deliver of Customer Securities - Aged Items

Include the contract value of specific fail to deliver securities shown below not more than 120 calendar days old (reduced by the applicable haircut percentage, adjusted for mark to market, computed in accordance with subparagraph (c)(2)(ix) of SEA Rule 15c3-1, the net capital rule) which are directly attributable to fail to receive contract values includible at Item 4 of the formula relative to the following securities:

- Municipal securities or securities issued or guaranteed by the United States or any of its agencies; or
- A “so-called” zero or stripped bond relating to one of those securities.

See (Exhibit A – General)/03 and (Exhibit A - Item 12)/071 when an allocation method is required to determine which fail to deliver contracts relate to customers.

(SEC Letter to NYSE, August 12, 1988) (No. 88-18, October 1988)

/012 Repriced Contracts Under NSCC's RECAPS Program

Broker-dealers participating in the National Securities Clearing Corporation's Reconfirmation and Pricing Service (RECAPS) Program may treat the RECAPS's settlement date as the date of the fail for aging purposes and treat the RECAPS's price of the contract as the reportable contract value rather than the original price of the trade.

(SEC Letter to NSCC, December 22, 1987)

RESERVE FORMULA (EXHIBIT A - ITEM 12); FAIL TO DELIVER OF CUSTOMER SECURITIES (continued)

/02 Drafts Receivable on Fails to Deliver

Report as Fail to Deliver the debit balance contained in a related draft receivable account when the fail to deliver has been eliminated, and immediate credit has not been received on shipments with draft attached to other broker-dealers.

/03 Continuous Net Settlement Balances (CNS) – Fails to Deliver

When computing the reserve formula calculations, broker-dealers must adjust any net debit balance receivable from CNS to reflect the gross debit amounts representing the long market value of fails to deliver and the gross credit amounts representing the short market value of fails to receive.

The gross market value of fails to deliver shall be included as a debit item in the reserve formula computation in accordance with the requirements of Rule 15c3-3(Exhibit A - Item 12). The gross market value of fails to receive shall be included as a credit item in the reserve formula computation in accordance with the requirements of Rule 15c3-3(Exhibit A - Item 4).

(SEC letter to Dupont, Glore Forgan, Inc., February 27, 1973)  
(SEC Staff to FINRA) (FINRA Regulatory Notice 13-44)

RESERVE FORMULA (EXHIBIT A - ITEM 12); FAIL TO DELIVER OF CUSTOMER SECURITIES (continued)

/04 Fail to Deliver Securities in Transfer

When a fail to deliver exists due to securities not in good deliverable form being sent to transfer after the sales proceeds is paid to the customer, it may be included in the formula, provided:

- It is not more than 30 calendar days old; and
- The appropriate and necessary papers have been obtained and attached to such securities in transfer.

(SEC to Midwest Stock Exchange Inc., May 25, 1977) (No. 78-1, May 1978)

/05 Free Shipments of Mutual Funds

Free shipments of mutual funds which give rise to an unsecured receivable may be included in the formula as fail to deliver for not more than seven business days from the date of shipment.

(SEC Staff to NYSE)

/06 Free Shipments to Broker-Dealers

Free shipments to broker-dealers to satisfy a customer related fail which gives rise to an unsecured receivable shall not be included in the formula as a debit item.

(SEC Letter to NASD, July 16, 1974)

RESERVE FORMULA (EXHIBIT A - ITEM 12); FAIL TO DELIVER OF CUSTOMER SECURITIES (continued)

/07 Fail to Deliver Allocation Method

When it is impractical or unduly burdensome to determine which fails to deliver not more than 30 calendar days old relate to customers transactions an appropriate allocation may be made on a conservative basis to accomplish maximum protection for customers.

Sample Allocation:

- A determination shall be made of the total contract value of all fails to deliver not more than 30 calendar days old;
- Such amount shall be reduced by the contract value of fails to deliver not more than 30 calendar days which are not allocable to customers (see Item 12 /08); and
- The remaining amount shall be included in the reserve formula.

(SEC Release 34-9922, January 2, 1973)

/071 Fail to Deliver Allocation Method - Aged Items

When it is impractical or unduly burdensome to determine which aged fail to deliver securities not more than 120 calendar days old relate to securities includible as fail to receive at Item 4 of the reserve formula (see specifics at Item 12 /011):

- A determination shall be made of the total contract value of all fails to deliver between 31 and 120 calendar days old of municipal securities, securities issued or guaranteed by the United States or any of its agencies and “so-called” zero or stripped bonds which, based on an appropriate allocation made on a conservative basis to accomplish maximum protection for customers, are allocable to fails to receive includible at Item 4 of the reserve formula;
- Such amount shall be reduced by the applicable haircut percentage, adjusted for mark to market, computed in accordance with subparagraph (c)(2)(ix) of Rule 15c3-1, the net capital rule; and
- The remaining amount shall be included in the reserve formula.

(SEC Letter to NYSE, August 12, 1988)

RESERVE FORMULA (EXHIBIT A - ITEM 12); FAIL TO DELIVER OF CUSTOMER SECURITIES (continued)

/08 Fail to Deliver Not Allocable to Customers

Fails to deliver not more than 30 calendar days old allocable to the locations shown below are not allocable to customers and shall not be included in the reserve formula.

- F/D vs. Non-Customer Accounts
- F/D vs. Proprietary Accounts
- F/D vs. Fail to Receive of the same quantity and issue when net capital is computed under the alternative method provided credits for fails to receive of the same quantity and issue “matched” against fails to deliver and securities borrowed are also excluded from the reserve formula and 1% of the securities borrowed and fail to deliver debit values are deducted in the alternative net capital computation. Otherwise the fail to deliver shall be included in the reserve formula.
- F/D vs. Stock Dividends Receivable
- F/D vs. Transfer over 30 calendar days old
- F/D vs. Short Security Count, Confirmation and Suspense Differences
- F/D vs. Physical Control Locations unless negotiable securities are in the broker-dealers physical possession and are in excess of possession or control requirements for not more than three business days, in which event the fail to deliver may be included in the reserve formula.

RESERVE FORMULA (EXHIBIT A - ITEM 12); FAIL TO DELIVER OF CUSTOMER SECURITIES (continued)

/081 Fail to Deliver vs. All Other Physical Control Locations

When fails to deliver to a broker-dealer or clearing corporation allocate to a box location, the broker-dealer may elect to include the contract value of the failed to deliver in the reserve formula provided:

1. It can be demonstrated that the failed to deliver arose from a customer sale transaction. As an alternative, a broker-dealer may elect to include a percentage of fails to deliver that allocate to the box that is equal to the ratio of customer fails to deliver, includable in the reserve formula, to total fails to deliver. A new ratio is to be determined whenever another reserve formula calculation is implemented;
2. The security is negotiable and is excess of possession or control requirements for not more than three (3) business days; and
3. Documented proof of the above procedures is retained for at least three years.

(SEC Staff to NYSE) (No. 92-10, July 1992)

(SEC Staff to NYSE) (No. 95-3, May 1995)

RESERVE FORMULA (EXHIBIT A - ITEM 12); FAIL TO DELIVER OF CUSTOMER SECURITIES (continued)

/09 Foreign Issued and Settled Securities Fail to Deliver

Broker-dealers may, on the filing of a written notice with its designated examining authority of its intention and maintenance in its records of a schedule of the current settlement cycle of each country in which it trades, use the foreign settlement date of foreign issued and settled securities as the customary settlement cycle in the particular country. In those instances where the settlement cycle is on a “seller’s option basis”, the settlement date must be a date no more than thirty (30) days from the trade date.

In addition, broker-dealers may include as a debit foreign issued and settled failed to deliver securities contracts outstanding more than 30 days past the customary settlement date that allocate to either failed to receive contracts or other includible credits provided:

1. The aged failed to deliver security is a foreign issued and settled equity security traded on an exchange, or

A foreign issued and settled debt security in Australia, Austria, Belgium, Canada, Denmark, the Federal Republic of Germany, Finland, France, Hong Kong, Italy, Japan, Luxembourg, Malaysia, Mexico, the Netherlands, New Zealand, Norway, Portugal, Singapore, South Africa, Spain, Sweden, Switzerland, and the United Kingdom;

2. The aged failed to deliver is reduced on a mark-to-market basis thirty (30) days after the customary settlement date by an amount computed in accordance with paragraph (c)(2)(ix) of Rule 15c3-1, the net capital rule. For purposes of this calculation, broker-dealers are not required to apply paragraph (c)(2)(vii) of Rule 15c3-1; and
3. The fail to deliver security contract is not outstanding more than sixty (60) calendar days past the customary settlement cycle in the foreign country or, if the settlement cycle is on a “seller’s option basis”, more than ninety (90) days from the trade date.

The SEC will monitor this program to assure that the procedures outlined function in a manner consistent with the objectives of SEA Rules 15c3-3 and 17a-13 which requires the quarterly count of securities.

(SEC Letter to Securities Industry Association, August 9, 1990)  
(No. 90-7, September 1990)



RESERVE FORMULA (EXHIBIT A - ITEM 12); FAIL TO DELIVER OF CUSTOMER SECURITIES (continued)

/10 Receivable from Money Market Funds Due to Customer Redemptions

When broker-dealer records a receivable from money market funds on the day before settlement date of customer redemptions, the resulting debit is not includable in the Reserve Formula. However, the debit may serve to reduce certain credit balances.

See interpretation 15c3-3(Exhibit A - Item 4)/08.

(SEC Staff to NYSE) (No. 92-13, December 1992)

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RESERVE FORMULA (EXHIBIT A - ITEM 13); MARGIN REQUIRED BY OCC/01 Margin Required by Options Clearing Corporation

Include in the formula the amount of margin required and on deposit with the Options Clearing Corporation for all option contracts written or purchased in customer accounts. Note F stipulates that such margin shall be represented by cash, proprietary qualified securities and letters of credit collateralized by customers' securities.

Unsecured letters of credit and proprietary securities not qualified under paragraph (a)(6) of SEA Rule 15c3-3 shall not be included in the reserve formula.

(SEC Release 34-13565, May 18, 1977) (No. 78-1, May 1978)

/011 OCC Margin Requirement Met by Customers Securities

When customer available collateral is deposited with OCC to satisfy margin requirements the actual amount of margin required is included in the Formula as both a debit and a credit. Such deposit of securities is not considered a good control location.

(SEC Staff to NYSE) (No. 83-2, April 1983)

/012 Commingled Collateral As Options Clearing Corp Margin Deposit-(Rescinded, No. 02-7, August 2002)/013 Commingled Collateral As Options Clearing Corp Margin Deposit

When customer, non-customer and qualified proprietary securities are commingled as margin on deposit with OCC the lesser of the customer margin requirement or the market value of the customers' securities pledged as collateral should be included as a credit in the reserve formula. In addition, the lesser of the customers' margin requirement or the total market value of the customers' and qualified proprietary securities pledged as collateral should be included as a debit in the reserve formula.

(SEC Staff to NYSE) (No. 02-7, August 2002)

RESERVE FORMULA (EXHIBIT A - ITEM 13); MARGIN REQUIRED BY OCC (continued)/02 Restricted Letters of Credit Collateralized by Proprietary Securities

Include in the formula restricted letters of credit secured by proprietary “qualified” securities (under SEA Rule 15c3-3(a)(6)) limited, however, to the extent of:

- The net margin required for all options contracts in customers’ accounts; and
- The net margin requirement not met by other qualified margin.

(SEC Letter to CBOE, March 14, 1975)

/03 Letters of Credit Secured by Customer’ Securities

Include in the formula the amount of letters of credit obtained by a member of Options Clearing Corporation which are collateralized by customers’ securities not required to be in possession or control, to the extent of the member’s customers margin requirement. The collateral securities are not in the possession or control of the broker-dealer.

(SEC Staff to NYSE) (No. 83-2, April 1983)

/031 Letters of Credit Secured by Customer and Non-Customer Securities

When a letter of credit collateralized by both customer and non-customer securities is deposited with OCC as margin, only the amount required for customers’ margin is included as a debit.

The combined customer and non-customer margin requirement, up to the amount of the letter of credit, must be included as a credit at Item 2.

(SEC Staff to NYSE) (No. 90-11, December 1990)

RESERVE FORMULA (EXHIBIT A - ITEM 13); MARGIN REQUIRED BY OCC (continued)

/04 OCC Margin Required From Introducing Firms – Rescinded (No. 05-8, April 2005)

/041 OCC Margin Required for a Broker-Dealer Introducing Options on an Omnibus Basis

A broker-dealer that introduces its customers' option transactions on an omnibus basis should include a debit and an offsetting credit in its reserve formula when customers' securities are deposited as collateral with the carrying/clearing broker-dealer to satisfy the margin requirement from the carrying/clearing broker-dealer. The amount to be included as a debit and a credit in the reserve formula is the lesser of the customers' margin requirement or the market value of the customers' securities deposited as collateral with the carrying/clearing broker-dealer.

The introducing omnibus broker-dealer should include a debit in its reserve formula (without an offsetting credit) when cash and/or qualified proprietary securities are deposited as collateral with the carrying/clearing broker-dealer to satisfy the margin requirement from the carrying/clearing broker-dealer. The amount to be included as a debit in the reserve formula is the lesser of the customers' margin requirement or the cash and/or the market value of qualified proprietary securities deposited as collateral with the carrying/clearing broker-dealer.

(SEC Staff to NYSE) (No. 05-8, April 2005)

SEA Rule 15c3-3(Exhibit A - Item 13)/041

RESERVE FORMULA (EXHIBIT A - ITEM 14); MARGIN RELATED TO SECURITY FUTURES PRODUCTS

/01 Margin Related to Security Futures Products Deposited with a Clearing Agency or a Derivative Clearing Organization

The provisions of the interpretations under SEA Rule 15c3-3 (Exhibit A – Item 13) related to the margin required and on deposit with the OCC for all option contracts written or purchased in customer accounts can be applied to the margin required and on deposit with a clearing agency or a derivatives clearing organization for all security futures products written, purchased or sold in customer security accounts under the provisions of SEA Rule 15c3-3 (Exhibit A - Note G) for purposes of the reserve formula.

(SEC Staff to NYSE) (No. 05-8, April 2005)

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SEA Rule 15c3-3(Exhibit A - Item 14)/01