

**CONSOLIDATED COMPUTATIONS OF NET CAPITAL AND AGGREGATE
INDEBTEDNESS FOR CERTAIN SUBSIDIARIES AND AFFILIATES**
SEA Rule 15c3-1c (Appendix C)

(a) FLOW THROUGH CAPITAL BENEFITS

Every broker or dealer in computing its net capital and aggregate indebtedness pursuant to 17 CFR 240.15c3-1 shall, subject to the provisions of paragraphs (b) and (d) of this Appendix, consolidate in a single computation assets and liabilities of any subsidiary or affiliate for which it guarantees, endorses or assumes directly or indirectly the obligations or liabilities. The assets and liabilities of a subsidiary or affiliate whose liabilities and obligations have not been guaranteed, endorsed, or assumed directly or indirectly by the broker or dealer, may also be so consolidated if an opinion of counsel is obtained as provided for in paragraph (b) of this section.

/01 Guarantees

If a broker-dealer guarantees the obligations of a sister organization, the assets and liabilities of that organization should be combined, for net capital purposes, with those of the broker-dealer unless this results in the increase of the broker-dealer's net capital and/or decrease in the broker-dealer's ratio of aggregate indebtedness to net capital, or under the alternative net capital requirement method, increases the broker-dealer's net capital and/or decreases the minimum net capital requirement.

(SEC Staff to NYSE) (No. 77-2, June 1977)

/02 Partnership Participation as a General Partner

A broker-dealer whether organized as a sole proprietor, partnership or corporation who is a general partner of another partnership is in effect guaranteeing all the liabilities of that partnership. This would ordinarily require a consolidation under Appendix C.

As an alternative to a formal consolidation the broker-dealer could:

1. Compute net capital under SEA Rule 15c3-1 for the partnership and take any resulting deficit as a charge in computing the broker-dealer's net capital, and;
2. Treat any carrying value of the general partnership interest on the broker-dealer's books as a non-allowable value.
3. Not increase its net capital by any net capital equity in the partnership unless it can comply with paragraph (b) of Appendix C.

(SEC Letter to Reavis & McGrath, July 13, 1983) (No. 83-5, November 1983)

SEA Rule 15c3-1c(a)/02

(a) FLOW THROUGH CAPITAL BENEFITS (continued)/021 Flow Through Capital From Limited Partnership(s)

A broker-dealer who as a general partner in a limited partnership carries the account(s) of the limited partnership(s) and has the right to withdraw its funds from the limited partnership(s) without the consent of any other person may, as an alternative to a formal consolidation in the net capital computation:

1. Compute net capital for the partnership(s) under SEA Rule 15c3-1 and take any resulting deficit as a charge to its net capital;
2. Treat any carrying value of the partnership(s) interests on its books as a non-allowable asset, and
3. Increase its net capital by an amount equal to its pro rata share of any net capital equity in the partnership(s).
4. The sum of all assets for all partnerships included as good assets under item 3 above may not exceed 25% of the computing broker-dealers excess net capital.
5. No other assets or liabilities of the partnerships may be consolidated in the broker-dealer's own computation of net capital.

(SEC Letter to Schulte Roth & Zabel, November 8, 1985) (No. 90-4, June 1990)

/03 One Line Flow Through

See interpretation 15c3-1c(c)/011.

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

(NEXT PAGE IS 1211)

(b) REQUIRED COUNSEL OPINIONS

(1) If the consolidation, provided for in paragraph (a) of this section, of any such subsidiary or affiliate results in the increase of the broker's or dealer's net capital and/or the decrease of the broker's or dealer's minimum net capital requirement under paragraph (a) of 17 CFR 240.15c3-1 and an opinion of counsel described in paragraph (b)(2) of this section has not been obtained, such benefits shall not be recognized in the broker's or dealer's computation required by this section.

(2) Except as provided for in paragraph (b)(1) of this section, consolidation shall be permitted with respect to any subsidiaries or affiliates which are majority owned and controlled by the broker or dealer for which the broker or dealer can demonstrate to the satisfaction of the Commission, through the Examining Authority, by an opinion of counsel that the net asset values, or the portion thereof related to the parent's ownership interest in the subsidiary or affiliate may be caused by the broker or dealer or a trustee appointed pursuant to the Securities Investor Protection Act of 1970 or otherwise, to be distributed to the broker or dealer within 30 calendar days. Such opinion shall also set forth the actions necessary to cause such a distribution to be made, identify the parties having the authority to take such actions, identify and describe the rights of other parties or classes of parties, including but not limited to customers, general creditors, subordinated lenders, minority shareholders, employees, litigants and governmental or regulatory authorities, who may delay or prevent such a distribution and such other assurances as the Commission or the Examining Authority by rule or interpretation may require. Such opinion shall be current and periodically renewed in connection with the broker's or dealer's annual audit pursuant to 17 CFR 240.17a-5 under the Securities Exchange Act of 1934 or upon any material change in circumstances.

/01 Unaudited Financial Statements

A broker-dealer not subject to the audit requirement must have an opinion of counsel reaffirmed at the time of the filing of its December FOCUS report in order to benefit from the flow-through capital of a subsidiary or affiliate.

(SEC Staff to NYSE)

/02 Pre-existing Opinions of Counsel

Present opinions of counsel continue to be effective in providing flow-through capital benefits to member organizations until the next filing of the annual audit report under SEA Rule 17a-5, or in the case of a broker-dealer not subject to the audit requirement, until the next filing of its December FOCUS report.

(SEC Staff to NYSE)

(b) REQUIRED COUNSEL OPINIONS (continued)/03 Opinion of Counsel

To be considered satisfactory, opinion of counsel must be issued by outside counsel and must specifically address:

- The right and the ability of a SIPC receiver to accomplish liquidation of the receivership within 30 calendar days;
- Set forth the action necessary to cause such a distribution to be made;
- Identify the parties having the authority to take such actions; and
- Identify the rights of customers, general creditors, subordinated lenders, minority shareholders, employees, litigants and government or regulatory authorities.

It would appear unlikely for benefits to flow to a broker-dealer parent if it has made a subordinated loan to a subsidiary.

(SEC Staff to NYSE) (No. 90-4, June 1990) (No. 96-4, November 1996)

(NEXT PAGE IS 1221)

(c) PRINCIPLES OF CONSOLIDATION

In preparing a consolidated computation of net capital and/or aggregate indebtedness pursuant to this section, the following minimum and non-exclusive requirements shall be observed:

(1) Consolidated net worth shall be reduced by the estimated amount of any tax reasonably anticipated to be incurred upon distribution of the assets of the subsidiary or affiliate.

(2) Liabilities of a consolidated subsidiary or affiliate which are subordinated to the claims of present and future creditors pursuant to a satisfactory subordination agreement shall not be added to consolidated net worth unless such subordination extends also to the claims of present or future creditors of the parent broker or dealer and all consolidated subsidiaries.

(3) Subordinated liabilities of a consolidated subsidiary or affiliate which are consolidated in accordance with paragraph (c)(2) of this section may not be prepaid, repaid or accelerated if any of the entities included in such consolidation would otherwise be unable to comply with provisions of Appendix (D), 17 CFR 240.15c3-1d.

(4) Each broker or dealer included within the consolidation shall at all times be in compliance with the net capital requirement to which it is subject.

/01 Haircuts Consolidation – (Rescinded, No. 02-7, August 2002)/011 One Line Flow Through Capital

A broker-dealer who includes flow through capital from affiliated entities pursuant to SEA Rule 15c3-1c is required to do so only on a one line basis (instead of line-by-line) when submitting unaudited FOCUS Reports to its Designated Examining Authority. This amount should be reported on line item #3525 (Other (Deductions) or Allowable Credits) of the FOCUS Report Computation of Net Capital.

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

/02 Affiliate or Subsidiary Requirement

A subsidiary or affiliate broker-dealer included within a consolidated computation must comply, in its own right, with all applicable provisions of SEA Rule 15c3-1 as if the consolidation did not exist and may not derive from such consolidation, directly or indirectly, any decrease in its aggregate indebtedness, increase in its net capital or decrease in its required minimum net capital.

(SEC Release No. 34-13565, May 18, 1977) (No. 77-2, June 1977)

SEA Rule 15c-3-1c(c)/02

(c) PRINCIPLES OF CONSOLIDATION (continued)/021 Net Capital Requirement of Parent/Broker-Dealer Receiving Flow Through Benefits

A parent/broker-dealer receiving flow through benefits must meet the minimum net capital requirements set forth under SEA Rule 15c3-1 exclusive of such flow through benefits.

(SEC Staff to NYSE) (No. 91-8, July 1991)

/022 Restriction of Flow Through Capital Benefits Received From Broker-Dealer Subsidiaries or Affiliates

The amount of flow through capital benefits which a parent/broker-dealer may receive from certain broker-dealer or other regulated subsidiaries or affiliates is restricted to the amount of net capital of such subsidiary or affiliated entity equal to the lesser of:

- A. The amount of net capital of such subsidiary or affiliated entity which exceeds the percentage limitations for withdrawal of equity capital under the applicable early warning levels for that entity pursuant to SEA Rule 15c3-1(e) as follows:
1. 10% of aggregated indebtedness if under the basic method
 2. 120% of minimum dollar requirement if applicable
 3. 5% of aggregate debit items if computing under alternate method, or
 4. if the affiliate is also a registered futures commission merchant, the greater of 1, 2 or 3 as appropriate or 7% of funds required to be segregated under CEA regulations and other deductions specified, or
 5. 25% of the deductions from net worth required by paragraphs (c)(2)(vi), and Appendix A of SEA Rule 15c3-1, or
- B. The amount of net capital of such subsidiary or affiliated entity which exceeds any greater limitation or early warning levels imposed by other regulatory authority, or
- C. The amount of net capital of such subsidiary or affiliated entity which exceeds any greater limitation or early warning levels imposed by legal covenant. This includes such covenants imposed by capital maintenance agreements with creditors, insurers, ratings agencies, bond or common and preferred stock holders.

(SEC Staff to NYSE) (No. 91-8, July 1991)

SEA Rule 15c3-1c(c)/022

(c) PRINCIPLES OF CONSOLIDATION (continued)

/03 Minority Interests

Minority interests are not to be included in Parent's Aggregate Indebtedness or Net Worth.

(SEC Staff of NYSE) (No. 79-4, March 1979)

(d) CERTAIN PRECLUDED ACTS

No broker or dealer shall guarantee, endorse or assume directly or indirectly any obligation or liability of a subsidiary or affiliate unless the obligation or liability is reflected in the computation of net capital and/or aggregated indebtedness pursuant to 17 CFR 240.15c3-1 or this Appendix (C), except as provided in paragraph (b)(1) of this section.

(NEXT PAGE IS 1301)

SEA Rule 15c3-1c(d)