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MISSION

DIVISION OF
MARKET REGULATION

November 5, 1987

PUBLIC AVAILABILITY DATE: 12-05-87

ACT	SECTION	RULE
1934	15(c)	15c3- 1

Mr. Donald Van Weezel
Managing Director
Regulatory Affairs
New York Stock Exchange, Inc.
55 Water Street, 23rd Floor
New York, New York 10041

Dear Mr. Van Weezel:

This responds to your letter dated July 2, 1987 written on behalf of the New York Stock Exchange, Inc. ("NYSE") requesting a modification of a no-action letter regarding the net capital treatment of non-purpose credit accounts for purposes of subparagraphs (c)(2)(iv)(B) and (c)(2)(xii) of Rule 15c3-1 (17 CFR 240.15c3-1(c)(2)(iv)(B) and (c)(2)(xii) respectively) under the Securities Exchange Act of 1934.

We understand the pertinent facts to be as follows: On August 13, 1984 the Division of Market Regulation responded to a no-action request of the NYSE regarding non-purpose loan accounts. Based upon the facts represented in that letter, the Division took a no-action position "if a broker-dealer in computing net capital treats a non-purpose loan account collateralized by insured negotiable CDs [certificates of deposits] or an insured participation interest in 'brokered' negotiable CDs as a fully secured receivable for purposes of subparagraph (c)(2)(iv)(B) and (c)(2)(xii) of Rule 15c3-1 . . ." This no-action position was contingent on the satisfaction by the broker-dealer of seven clearly delineated conditions as suggested by the NYSE and accepted by the Division.

The fifth condition of the Division's position prohibits the broker-dealer from lending funds to customers to make the initial purchase of, or to reinvest in other, CDs or money market instruments. The modification you seek is an elimination of this fifth condition.

In support of your request, you state that at the time of the original request the NYSE had no experience in this area of credit extention and also a limited market existed for these instruments. After three years experience, the NYSE believes that lending funds to customers on initial purchases would not create any additional credit risk.

Based on the foregoing facts and representations, the Division will raise no question nor recommend any action to the Commission if broker-dealers rely on the Division's no action letter of August 13, 1984, as described above and as modified to eliminate the fifth condition. 1/ Please understand that the position expressed herein is that of the staff on enforcement only and does not purport to express any legal conclusion on this matter. The Division's position is necessarily confined to the facts and your representations; any further material change therein may warrant a different result and should be brought to the attention of the Division.

Please contact the undersigned if you should have any further questions on this matter.

Sincerely,

Michael T. Dorsey
Attorney/Advisor

cc: I. William Fishkind - NASD

1/ Receivables of a broker-dealer carried in a non-purpose credit account are not to be included as debit items in the reserve formula computation under Rule 15c3-3 (17 CFR 240.15c3-3).

20 Broad Street
New York, NY 10005
212 656 5058

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Donald van Weezel
Managing Director
Regulatory Affairs

July 2, 1987

NYSE
New York
Stock Exchange, Inc.

Mr. Julio A. Mojica
Branch Chief
Securities and Exchange Commission
Division of Market Regulation
Washington, D. C. 20549

Dear Mr. Mojica:

On June 12, 1984 we wrote you regarding non-purpose loans collateralized by negotiable certificates of deposit (CDs). On August 13, 1984 you responded indicating that the Division will not recommend any action to the Commission if a broker-dealer in computing net capital treats a non-purpose loan account collateralized by insured negotiable CDs or an insured participation interest in "brokered" negotiable CDs as a fully secured receivable for purposes of subparagraphs (c)(2)(iv)(B) and (c)((2)(xii) of Rule 15c3-1 provided certain conditions contained in our letter were met.

You further stated that any material change may warrant a different result and should be brought to the Division's attention. Accordingly, we wish to inform you that the Exchange views condition number 5 as no longer necessary. Condition number 5 states:

> Broker-dealers may not lend customers' funds to make the initial purchase or to reinvest in other CD's or money market instruments.

This prerequisite was originally imposed by the Exchange because at that time we had no experience in this area of credit extension and there was a limited market for these instruments. After almost three years, the Exchange has found no problems in member organizations extending credit on CDs and feel that allowing loans on initial purchases would not create any additional credit risk. Further, although an actual secondary market has not developed, the broker-dealers who are extending credit on CDs have guaranteed to repurchase them from their customers and, thereby, have established a form of secondary market.

Based on the above we feel that the condition number 5 is no longer appropriate and intend to eliminate it.

Very truly yours,