

IMPORTANT

DATE: January 4, 1993

TO: Selected Member Organizations

FROM: Department of Financial Compliance

RE: Approved Amendments to the SEC Net Capital Rule

The SEC recently approved several amendments to SEC Rule 15c3-1, the Net Capital Rule (the "Rule"). The effect of the amendments will be to raise the minimum net capital required of registered broker-dealers, standardize equity securities haircuts, and lower charges to aggregate indebtedness for mutual fund and stock loan payables. The increase to the minimum capital levels will be implemented over a period of twelve months starting on June 30, 1993. Please note that changes not concerning the minimum net capital requirements will be effective January 1, 1993. Attached is a summary of the present and amended net capital requirements and a copy of the SEC release.

Below is a summary of certain important amendments to the Rule; however, the Department of Financial Compliance cautions all member organizations to read the release to determine the effect of these changes on their respective firms.

- For firms which carry and hold customer funds and securities, the capital requirement will be \$250,000 under both the aggregated indebtedness and alternative methods.
- For firms that conduct proprietary trading, the capital requirement under the aggregate indebtedness and alternative standard will be increased from \$25,000 to \$100,000 and \$100,000 to \$250,000, respectively.
- The equity securities haircuts under the aggregate indebtedness and alternative standards will be uniform. The haircut will be 15% of the greater of the long or short position, with a charge of 15% on the lesser position to the extent it exceeds 25% of the greater. It should be noted that for equity securities included as collateral for secured demand note agreements the haircut will remain at 30%.

- Firms electing the alternative standard under paragraph (a)(2)(ii) are required to make an election in writing to their designated examining authority. CBOE designees should complete and return the attached notification.
- Eighty-five percent (85%) of stock loan payable offset by stock borrow receivable may be excluded from aggregate indebtedness.
- The present ceiling of \$100,000 net capital required for over-the-counter market makers will be increased to \$1,000,000 with the requirement for each security priced at \$5 or less per share raised from \$500 to \$1,000.

On November 24, 1992, the SEC issued a release proposing additional Rule amendments. (See attached) The proposals contained in the new release are as follows:

- To raise the minimum net capital requirement applicable to broker-dealers that introduce customer accounts but do not receive customer securities from \$5,000 to \$25,000.
- The minimum net capital requirement applicable to other classes of broker-dealers that never receive customer funds or securities would be increased from \$5,000 to \$10,000.
- Broker-dealers that make markets, and are not exempt from the Rule, would be required to maintain net capital equal to \$2,500 for each security in which they make a market regardless of the price of the security.

The deadline for comments to be submitted to the SEC on the proposed rule amendments is February 5, 1993. The Department requests that it receive a copy of any comment letter submitted by a member organization.

Questions regarding the effective and proposed rule amendments should be directed to Richard Lewandowski at (312)786-7183 or Ronald Sellers at (312)786-7714.

SUMMARY OF NET CAPITAL REQUIREMENTS

<u>Business Characteristics</u>	<u>Present Rule</u>		<u>New Rule</u>	
	<u>Paragraph</u>	<u>Applicable Minimum Requirement</u>	<u>Paragraph</u>	<u>Applicable Minimum Requirement</u>
Carries customer accounts				
Basic (AI)		(a)(1)		(a)(2)(i)
\$250,000				
Alternative method		(f)		(a)(2)(i)
250,000				
Trade solely for their own				
accounts and do not carry				
customer accounts				
Basic (AI) Method		(a)(1)		(a)(2)(iii)
100,000				
Alternative Method		(f)		(a)(1)(ii)
250,000				
Exempt from Rule 15c3-3		(a)(1)		(a)(2)(ii)
100,000				
under paragraph (k)(2)(i)				
Dealers which execute more		(a)(1)		(a)(2)(iii)
100,000				
than 10 trades per year in				
own investment account				
Sellers of OTC Options		(a)(5)		(a)(2)(iii)
100,000				
Market Makers (non-exempt)		(a)(4)		(a)(4) 1,000,000

(limit)		(limit)	
Introduces customer accounts and receives securities 50,000	(a)(2)	5,000	(a)(2)(iv)
Engaged solely in mutual 25,000 fund sales and promptly transmits customer funds and securities	(a)(3)	2,500	(a)(2)(v)

TEMPORARY MINIMUM REQUIREMENTS

Brokers or Dealers That Carry Customer Accounts **Aggregate Indebtedness Standard**

- (1) \$25,000 until June 30, 1993;
- (2) \$100,000 on July 1, 1993, until December 31, 1993;
- (3) \$175,000 on January 1, 1994, until June 30, 1994; and
- (4) \$250,000 on July 1, 1994.

Brokers or Dealers That Elect the Alternative Standard

- (1) \$100,000 until June 30, 1993;
- (2) \$150,000 on July 1, 1993, until December 31, 1993;
- (3) \$200,000 on January 1, 1994, until June 30, 1994; and

- (4) \$250,000 on July 1, 1994

**Brokers or Dealers That are Exempt From Securities Exchange Act
Rule 15c3-3 Under Paragraph (k)(2)(i) and Dealers**

- (1) \$25,000 until June 30, 1993;
- (2) \$50,000 on July 1, 1993, until December 31, 1993;
- (3) \$75,000 on January 1, 1994, until June 30, 1994; and
- (4) \$100,000 on July 1, 1994.

**Brokers or Dealers That Introduce Customer Accounts and Receive
Securities**

- (1) \$5,000 until June 30, 1993;
- (2) \$20,000 on July 1, 1993, until December 31, 1993;
- (3) \$35,000 on January 1, 1994, until June 30, 1994; and
- (4) \$50,000 on July 1, 1994.

**Brokers or Dealers Engaged in the Sale of Redeemable
Shares of Registered Investment Companies**

- (1) \$2,500 until June 30, 1993;
- (2) \$10,000 on July 1, 1993, until December 31, 1993;
- (3) \$17,500 on January 1, 1994, until June 30, 1994; and
- (4) \$25,000 on July 1, 1994.

Other Brokers or Dealers

- (1) \$2,500 until June 30, 1993;
- (2) \$3,300 on July 1, 1993, until December 31, 1993;
- (3) \$4,100 on January 1, 1994, until June 30, 1994; and
- (4) \$5,000 on July 1, 1994.