



DIVISION OF
MARKET REGULATION

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

January 14, 1985

Mr. David Marcus
Senior Vice President
New York Stock Exchange, Inc.
11 Wall Street
New York, NY 10005

Mr. John E. Pinto, Jr.
Senior Vice President
National Association of Securities
Dealers, Inc.
1735 K Street, N.W.
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Mr. James M. McNeil
Assistant Vice President
American Stock Exchange, Inc.
86 Trinity Place
New York, NY 10006

Mr. Bruce J. Simpson
Special Advisor
The Chicago Board Options
Exchange, Inc.
LaSalle at Jackson
Chicago, Illinois 60604

Gentlemen:

It has come to the attention of the Division that an apparent ambiguity exists in certain clearing agreements involving introducing broker-dealers and a carrying broker-dealer.

As you are aware, under the Commission's financial responsibility rules, a broker-dealer who introduces and forwards all customers accounts on a fully disclosed basis to a carrying broker-dealer is subject to certain lesser regulatory requirements. For instance, an introducing broker-dealer is subject to lower minimum net capital requirements; exempt from the provisions of Rule 15c3-3; and exempt from some of the recordkeeping requirements of Rule 17a-3 provided such records are kept by the carrying broker-dealer. Furthermore, for purposes of the Commission's

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financial responsibility rules and the Securities Investor Protection Act of 1970 ("SIPA") the introducing broker-dealer's customers are presumed to be customers of the carrying broker-dealer.

We understand that these clearing agreements may be interpreted to shift responsibility for the introduced customer accounts from the carrying broker-dealer to the introducing broker-dealer. It is the view of the Division that for financial responsibility purposes, if the introducing broker-dealer is responsible for the introduced customer accounts then the introducing broker-dealer is subject to the financial responsibility requirements applicable to broker-dealers engaging in a general securities business.

We ask that you inform your members promptly that all clearing agreements must provide that the carrying firm is responsible to the customer for all funds and securities carried for that customer by the carrying firm. To the extent that any agreements are ambiguous, each agreement should be amended to provide that for purposes of SIPA and the financial responsibility rules, customers accounts introduced on a fully disclosed basis to the carrying broker-dealer are the responsibility of the carrying broker-dealer.

If the carrying firm is unable or unwilling to assume responsibility for the accounts it carries on a fully disclosed basis, we expect the introducing firm to comply with those financial responsibility rules applicable to carrying firms.

If you have any questions regarding the matter, please call me or Michael Macchiaroli of my staff.

Sincerely,



Richard G. Ketchum
Director

cc: Michael Cardin, MSE
Robert Gilmore, Phlx
Steven A. Wolf, PSE
Michael Lindburg, BSE