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

DIVISION OF
MARKET REGULATION

July 27, 2000

Mr. Charles F. Vadala
Chairman
Capital Committee
Securities Industry Association
1401 Eye Street, NW
Washington, DC 20005-2225

Re: Portfolio Concentration Charges for Certain Securities
Under Rule 15c3-1 of the Securities Exchange Act of 1934

Dear Mr. Vadala:

This is in response to your letter dated January 7, 2000, on behalf of the Capital Committee of the Securities Industry Association, in which you request that the Division of Market Regulation ("Division") clarify its position as to portfolio concentration charges for certain debt securities and preferred stock under Rule 15c3-1 of the Securities Exchange Act of 1934.[1]

Paragraph (c)(2)(vii) of Rule 15c3-1 requires a broker-dealer to deduct from its net worth 100 percent of the value of proprietary securities for which there is no ready market or which cannot be publicly offered or sold without registration. In a series of no-action letters (collectively, the "Ready Market Letters"), the Division has stated that it would not recommend enforcement action to the Securities and Exchange Commission ("Commission") if under certain circumstances broker-dealers treat the following securities as having a ready market for purposes of Rule 15c3-1: (i) certain noninvestment grade, nonconvertible debt securities;[2] (ii) certain securities which may not be publicly offered or sold without registration under the Securities Act of 1933;[3] and

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1 17 CFR 240.15c3-1.

2 Letter from Michael A. Macchiaroli, Associate Director, Division of Market Regulation to Jeffrey Bernstein, Chairman, Capital Committee, Securities Industry Association (February 14, 1994).

3 Letter from Michael A. Macchiaroli, Associate Director, Division of Market Regulation to Rochelle Pullman, Chairman, Capital Committee, Securities Industry Association (March 15, 1996).

(iii) certain below-investment-grade-rated debt securities and preferred stock.[4] The Ready Market Letters also require that broker-dealers take certain undue concentration and portfolio concentration charges.

In your letter, you request that in lieu of the portfolio concentration charges described in the Ready Market Letters, a broker-dealer aggregate its proprietary positions in securities subject to such charges and take a single portfolio concentration charge to the extent the market value of the greater of the total long or short positions exceeds 40 percent of the broker-dealer's tentative net capital. The concentration charge on the market value of the greater of the total aggregated long or short positions in these securities shall be computed as follows:

(a) The broker-dealer shall take a 30 percent charge on that portion of its proprietary positions that is greater than 40 percent but less than or equal to 50 percent of its tentative net capital;

(b) The broker-dealer shall take a 50 percent charge on that portion of its proprietary positions that is greater than 50 percent but less than or equal to 60 percent of its tentative net capital;

(c) The broker-dealer shall take a 75 percent charge on that portion of its proprietary positions that is greater than 60 percent but less than or equal to 75 percent of its tentative net capital; and

(d) The broker-dealer shall take a 100 percent charge on that portion of its proprietary positions that is greater than 75 percent of its tentative net capital.

Based on the foregoing, the Division will not recommend enforcement action to the Commission if a broker-dealer aggregates its proprietary positions in securities which are subject to portfolio concentration charges under the Ready Market Letters and takes a single portfolio concentration charge as set forth above. The portfolio concentration charge may be reduced by any undue concentration charge required under paragraph (c)(2)(vi)(M) of Rule 15c3-1.

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[4] Letter from Michael A. Macchiaroli, Associate Director, Division of Market Regulation to Charles F. Vadala, Chairman, Capital Committee, Securities Industry Association (July 27, 2000).

You should be aware that this is a staff position with respect to enforcement only and does not purport to express any legal conclusions. This position is based solely on the above description. Factual variations could warrant a different response, and any material change in the facts must be brought to the Division's attention. This position may be withdrawn or modified if the staff determines that such action is necessary for the protection of investors, in the public interest, or otherwise in furtherance of the purposes of the securities laws.

Sincerely,

Michael A. Macchiaroli
Associate Director

cc: Ms. Susan DeMando, NASD Regulation, Inc.
Mr. Raymond Hennessy, New York Stock Exchange