

July 14, 2000

Michael A. Macchiaroli, Esq.
Associate Director
Division of Market Regulation
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Marketability of Certain Securities

Dear Mr. Macchiaroli:

On behalf of the Capital Committee ("the Committee") of the Securities Industry Association ("SIA")¹ we are pleased to submit the following proposal regarding the treatment of certain debt or preferred securities that either have a below-investment-grade rating by an Nationally Recognized Statistical Rating Agency ("NRSRO"), a rating from a single NRSRO, or are unrated, for purposes of calculating net capital under Rule 15c3-1 ("the Net Capital Rule") under the Securities Exchange Act of 1934 ("the Exchange Act").² The Committee requests that the Division of Market Regulation ("the Division") not recommend enforcement action to the Securities Exchange Commission ("SEC" or "the Commission") if broker-dealers compute their net capital charges on these securities as described below.

Paragraph (c)(2)(vii) of Rule 15c3-1 requires a broker-dealer to deduct from its net worth 100 per cent of the carrying value of securities it holds in its proprietary account for which there is no ready market or which cannot be publicly offered or sold without registration. The term "ready market" is defined in paragraph (c)(11) of Rule 15c3-1 to include a recognized established securities market in which there exists

¹ The Securities Industry Association is the trade association representing over 700 securities firms throughout North America. Its members include securities organizations of all types--investment banks, brokers, dealers, specialists, and mutual fund companies. SIA members are active in all markets, and in all phases of corporate and public finance. Collectively, they provide investors with a full spectrum of investment services and account for approximately 90% of the securities business conducted in the U.S.

² 17 CFR Sec. 240.15c3-1.



independent bona fide offers to buy and sell so that a price reasonably related to the last price or current bona fide competitive bid and offer quotations can be determined for a particular security almost instantaneously and where payment will be received in settlement of a sale at such price within a relatively short time conforming to trade custom.

Currently, certain below-investment-grade- rated or single-rated debt securities and preferred stock are generally subject to a 100 per cent haircut under Rule 15c3-1. The Committee believes that these securities have liquidity sufficient to allow them to be easily sold and that the 100 per cent haircut is a significant burden on broker-dealers. Accordingly, the Committee requests that the Division not recommend enforcement action to the Commission if a broker dealer treats debt securities and preferred stock not rated in one of the four highest categories by at least two NRSROs as having a ready market for purposes of Rule 15c3-1 if the following conditions are met:

1. The securities:
 - a. are issued by an issuer that has other outstanding nonpreferred equity securities that are registered with the Commission and traded on a national securities exchange or NASDAQ,
 - b. are issued by an issuer that is a foreign entity whose equity securities are included in the FTSE World Index;
 - c. have at least two public non-investment-grade ratings, or
 - d. have a single investment-grade rating, with the issuer having other outstanding nonpreferred equity securities that are either registered with the Commission and traded on a national securities exchange or NASDAQ or included in the FTSE World Index.
2. The issuer is not in default with respect to the securities and the securities are not traded flat or in default; and
3. The broker-dealer deducts from its net worth the following percentages from the gross long or short value of positions in debt securities and preferred stock not rated in one of the four highest categories by at least two NRSROs in each of the categories specified below:

(a) an initial issuance of at least \$100 million	15 per cent
(b) an initial issuance of at least \$75 million and less than \$100 million	20 per cent



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- (c) an initial issuance of at least \$50 million and less than \$75 million 25 per cent
- (d) an initial issuance of at least \$20 million and less than \$50 million 50 per cent
- (e) an initial issuance of less than \$20 million³ or have been held in inventory for more than 90 days as the result of the failure to complete the underwriting 100 per cent

As an additional condition, we propose that broker-dealers may not include the value of debt securities and preferred stock not rated in one of the four highest categories by at least two NRSROs, subject to the haircut percentages set forth above, in paragraph (c)(2)(vi)(J) of Rule 15c3-1 for the purposes of netting long or short securities positions under paragraph (c)(2)(vi)(J).

In addition to the haircuts proposed above, broker-dealers would also be subject to an additional portfolio concentration charge in accordance with a proposal that we have under separate discussion with the Division concerning portfolio concentration charges applicable to positions in securities without two investment-grade NRSRO ratings.

The Committee wishes to thank you for your consideration of our proposal. If you or your colleagues have any question about our proposal, please feel free to contact either the undersigned at (212) 762-6567, or George Kramer of the SIA staff at (202)296-9410.

Sincerely,

Charles F. Vadala
Chairman,
Capital Committee

³ Securities with an initial issuance of less than \$20 million will be deemed to be included in category (d) above if the issuer has another outstanding issue of debt securities and preferred stock not rated in one of the four highest categories by at least two NRSROs, which has an initial issuance of \$50 million or more.