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COMMODITY FUTURES TRADING COMMISSION

FORM 1-FR-IB

INSTRUCTIONS

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## PUBLIC REPORTING BURDEN

Public reporting burden for this collection of information is estimated to average 1.75 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this, to Agency Clearance Officer, Office of Administrative Services, Commodity Futures Trading Commission, 2033 K St. NW, Washington D.C. 20581; and to the Office of Information and Regulatory Affairs, Office of Management and Budget, (Paperwork Project Number 3038-0024), Washington, D.C. 20503.

## INTRODUCTION

The Commodity Futures Trading Commission ("Commission") has prepared these instructions to help introducing brokers ("IB") complete Part A of CFTC Form 1-FR-IB, the form to be used by IBs in reporting their net capital position under the Commodity Exchange Act ("CEAct").

These instructions do not apply to guaranteed IBs. IBs whose obligations are guaranteed by a futures commission merchant and who comply with the requirements of section 1.10(j) of the Commission's regulations (Requirements for Guarantee Agreement) need not file Part A of the Form 1-FR-IB. Part B of Form 1-FR-IB is the Guarantee Agreement to be used by guaranteed IBs.

The Commission has published a separate set of instructions which contains similar instructions to be followed by futures commission merchants in completing Form 1-FR-FCM.

A person who is applying for registration as an IB should also follow these instructions in completing its Form 1-FR-IB. When "IB" is used in these instructions, the term will also apply to applicants for registration, unless otherwise specified.

The terms "Form 1-FR-IB" and "financial report" may be used interchangeably in these instructions.

Where these instructions conflict with previous interpretations provided by the Commission's staff, the instructions take precedence.

## FILING BY IBs WHICH ARE ALSO SECURITIES BROKER/DEALERS

An IB which is also registered with the Securities and Exchange Commission ("SEC") as a broker or dealer in securities may file a Financial and Operational Combined Uniform Single Report under the

Securities Exchange Act of 1934, Part II or Part IIA, ("FOCUS Report") in lieu of Form 1-FR-IB. The IB-securities broker/dealer is expected to be familiar with the SEC's rules and instructions for preparing the FOCUS report and should prepare its FOCUS report in accordance with those rules and instructions.

Where the manner of reporting any item on the FOCUS report is different from that in which the item would have been reported on the Form 1-FR-IB, the IB-broker/dealer should nevertheless prepare the FOCUS report in accordance with the instructions to the FOCUS report. If the FOCUS report instructions do not specify how an item should be handled, the IB-broker/dealer should report the item in accordance with these instructions.

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WHERE TO FILE REPORTS

An IB must file its financial reports, and any supplemental information requested, with its designated self-regulatory organization ("DSRO") at the location the DSRO specifies. A copy of each report and supplemental information must be filed with the Commission as follows:

If an IB's principal office is located in Illinois, Indiana, Michigan, Ohio, or Wisconsin, the IB should file its financial reports with

Commodity Futures Trading Commission  
Financial Audit & Review Branch  
233 South Wacker Drive, Room 4600  
Chicago, IL 60606  
Phone: 312-353-5990

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Except with respect to the states listed above, if an IB's principal office is located east of the Mississippi River, the IB should file its financial reports with

Commodity Futures Trading Commission  
Financial Audit & Review Branch  
One World Trade Center, Room 4747  
New York, NY 10048  
Phone: 212-466-2061

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All other IBs should file their financial reports with

Commodity Futures Trading Commission  
4901 Main Street, Room 400  
Kansas City, MO 64112  
Phone: 816-374-6602

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Any self-regulatory organization ("SRO") of which an IB is a member may ask the IB for a financial report or other financial information, even though the SRO is not the IB's designated self-regulatory organization. Also, a DSRO or the Commission may ask for financial reports or information in addition to the routine filings made by their member-IBs.

An IB must promptly file with the Commission an exact copy of each financial report or other financial schedule filed with an SRO, including routine filings, special calls, and amended reports.

A financial report will not be considered filed until it has been received by the SRO and the Commission. It is not sufficient for an IB to mail a statement by its due date for the report to be filed in a timely manner. The copy filed with the Commission will be considered promptly filed only if it is received the same or next business day after receipt by the self-regulatory organization and the report has been filed with the SRO by its due date.

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CONTENTS OF FINANCIAL REPORTS

The table that follows identifies those statements in the Form 1-FR-IB that must normally be filed by an IB at the usual reporting dates specified in the regulations:

	Year-end Certified	Fiscal Quarters
Statement of Financial Condition	X	X
Statement of the Computation of the Minimum Capital Requirements	X	X
Statement of Income (Loss)	X	
Statement of Changes in Ownership Equity	X	X
Statement of Changes in Liabilities Subordinated to the Claims of General Creditors Pursuant to a Satisfactory Subordination Agreement	X	X
Due within 'X' days of 'as of' date	90	45

All statements filed by an IB must include any further information as may be necessary to make the statements not misleading.

Certified Report

In addition to the statements included in the Form 1-FR-IB, an IB must file with its year-end certified report a Statement of Cash Flows prepared in accordance with Financial Accounting Standards Board Statement No. 95. It must also include: (1) a report by a public accountant, in which he expresses an opinion on the financial statements and supplemental schedules, and the accounting principles reflected therein; (2) a report by the CPA on his review of internal accounting control; and (3) appropriate footnote disclosures.

As of the end of its fiscal year, an IB must file a financial report which has been audited by an independent public accountant. The financial report may be presented in accordance with generally accepted accounting principles rather than in the Form 1-FR-IB format. If the report is presented in accordance with GAAP, an IB must include with the report a reconciliation between the Statement of Financial

Condition which is presented in accordance with GAAP and the Statement of the Computation of the Minimum Capital Requirements. The reconciliation, which must also be certified by the public accountant, should take the following general form:

Reconciliation of the Statement of Financial Condition to the Statement of the Computation of the Minimum Capital Requirements

Total assets per statement of financial condition	\$xxx,xxx
Additions <Deductions>: Assets not reflected in the Statement of Financial Condition or not allowed as net capital under section 1.17 of the regulations under the Commodity Exchange Act (detail)	< <u>xx,xxx</u> >
Current assets under CFTC Regulation 1.17	\$xxx,xxx =====
Total liabilities per statement of financial condition	\$ xx,xxx
Additions <Deductions>: Liabilities not reflected in the Statement of Financial Condition or not considered as a liability for minimum net capital requirements	<u>x,xxx</u>
Liabilities under CFTC Regulation 1.17	\$xxx,xxx =====

Computer-Generated Form 1-FR-IB

An IB may file its Form 1-FR-IB using a computer-generated form, if such form is identical in its layout to CFTC Form 1-FR-IB. The Commission or the IB's DSRO may prohibit an IB from using a computer-generated form if it finds the form unacceptable.



PERTINENT REGULATIONS

In completing its Form 1-FR-IB, an IB should be familiar with the following sections of the Commission's regulations:

- (1) 1.3 -- Definitions.
- (2) 1.10 -- Financial reports of IBs (Filing requirements; election of fiscal year end; changes in fiscal year end; filing extensions for unaudited reports; nonpublic treatment of reports; guarantee agreements).
- (3) 1.12 -- Maintenance of minimum financial requirements by IBs (notices to be filed with the Commission and DSRO concerning undercapitalization, noncurrent books and records, material inadequacies in internal accounting control.
- (4) 1.16 -- Qualifications and reports of accountants (opinion to be rendered; audit standards; change in accountants; extensions for filing audited reports).
- (5) 1.17 -- Minimum financial requirements for IBs.
- (6) 1.18 -- Records for and relating to financial reporting and monthly net capital computation by IBs; maintenance of ledgers, journals, and supporting records.
- (7) 1.31 -- Books and records; keeping and inspection (retention period; inspection by Commission and U.S. Department of Justice; microfilming of records).

An IB should also be familiar with the SEC's net capital rules located in section 240.15c3-1 of the Code of Federal Regulations. Where the SEC has defined an asset, a haircut against an asset, or a liability in its rules which is not inconsistent with the CFTC's net capital rule, an IB is to use such definition in classifying its accounts. Likewise, SEC's interpretations of those rules, where not inconsistent with CFTC's, generally must also be applied. If an IB has a question about the applicability of an SEC rule or interpretation in a particular situation, it should contact its DSRO or the Commission.

## GENERAL INSTRUCTIONS FOR PREPARING FORM 1-FR-IB

### Accounting Principles

The Form 1-FR-IB must be prepared in conformity with generally accepted accounting principles, except where the regulations specify otherwise, applied on a basis consistent with that of the IB's preceding financial report and must include, in the statements or in accompanying notes, all disclosures necessary to make the report a clear and complete statement of the IB's financial position under the Commission's rules. The IB must report all data after proper accruals have been made for income and expenses not recorded in its books and after appropriate allowances have been provided for receivables, securities, and inventories, and after accrual of unrecorded liabilities.

### Definitions

The terms "current assets", "liabilities", "net capital", and "adjusted net capital" are all defined terms which may be found in Section 1.17 of the Commission's regulations. The Commission's regulations are contained in Title 17 of the Code of Federal Regulations by section number.

Where the SEC has defined an asset, a haircut against an asset, or a liability in its rules which is not inconsistent with the CFTC's net capital rule, an IB is to use such definition in classifying its accounts. Likewise, SEC's interpretations of those rules, where not inconsistent with CFTC's, generally must also be applied.

Where the CFTC has defined an asset, a percentage haircut to be applied to an asset, or a liability in its rules which is not inconsistent with the Securities and Exchange Commission's net capital rule, an IB-broker/dealer is to use such definition in classifying its accounts on the FOCUS report. Likewise, CFTC's interpretations of those rules and haircuts, where not inconsistent with SEC's, must also be applied.

Where SEC and CFTC rules appear inconsistent, an IB filing a Form 1-FR-IB must prepare the report in accordance with CFTC rules and interpretations; an IB-broker/dealer filing a FOCUS Report in such instance must report in accordance with the rules and interpretations of the SEC.

### Statement Headings

An IB must complete fully the heading on each statement in the Form 1-FR-IB. Each statement must show the IB's employer identification number which is assigned by the Internal Revenue Service, the IB's NFA identification number which is issued by the

National Futures Association, and the 'as of' date of, or the time period covered by, the statement.

If additional space is needed to detail or explain the answer to a question, the registrant should use a separate sheet of paper, showing the registrant's name, NFA ID number, 'as of' date of the report, name of the statement to which it is a supplement, and the number of the line item therein.

#### Marking Open Positions to Market

In determining "net capital":

1. all unrealized profits must be added and all unrealized losses must be deducted in an IB's accounts, including unrealized profits and losses on fixed price commitments and forward contracts;
2. all long and short commodity options traded on a contract market, all long and short listed security options, and all long and short commodity and securities positions must be marked to the market;
3. the value attributed to any commodity option purchased which is not traded on a contract market, or an unlisted security option purchased, is the difference between the option's strike price and the market value for the underlying physical or futures contract. In the case of a call option if the market value for the physical or futures contract is less than the strike price, it should be given no value. In the case of a put option, if the market value for the physical or futures contract is more than the strike price, it should be given no value.

#### Foreign Currency

Account balances designated in a foreign currency on an IB's books must be expressed in United States dollars in the Form 1-FR-IB, converted in accordance with GAAP, at the applicable rate of exchange (that is, the rate as of the balance sheet date for most items).

#### Letters of Credit

An IB may not report on its statement of financial condition any amount for letters of credit received or obtained by the IB. Also, a letter of credit may not be considered satisfactory collateral for securing any form of receivable.

#### Material Adverse Events

Any fact or condition that would have a material adverse effect on the reporting IB's financial or operational condition must be reported as a note to the statement of financial condition in order to make the statement not misleading. Contingent liabilities at the date of the financial report and actual transactions occurring between the as of date of the report and the date that it is filed which have a

material effect on the reported adjusted net capital, or on excess adjusted net capital, must be reported in an attachment to the report when the report is filed.

If any supplemental information has previously been reported to the DSRO and the Commission, it need not be repeated unless a significant change has occurred.

#### Readily Marketable

Where the term 'ready market' (or readily marketable) is used in the regulations, the Commission applies the same definition as that found in SEC rule 240.15c3-1(c) (11).

(i) The term "ready market" shall include a recognized established securities market in which there exist independent bona fide offers to buy and sell so that a price reasonably related to the last sales 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.

(ii) A "ready market" shall also be deemed to exist where securities have been accepted as collateral for a loan by a bank as defined in section 3(a) (6) of the Securities Exchange Act of 1934 and where the [IB] demonstrates to its [regulator] that such securities adequately secure such loans as that term (adequately secured) is defined in [SEC rule 240.15c3-1(c) (5)].

#### Secured Receivables

To be considered "good" security for a receivable, collateral must be readily marketable, otherwise unencumbered, and readily convertible into cash. Also, the collateral must be in the possession or control of the IB, or the IB must have a legally enforceable, written security agreement signed by the debtor, and a perfected security interest in the collateral.

Any securities or property held by an IB as collateral against a receivable must be reduced by the appropriate haircut in determining the extent to which a receivable is secured.

Warehouse receipts are good collateral if the commodity covered by the warehouse receipt has a ready market.

The following are not good security for a receivable:

- Futures and option contracts
- Exchange memberships

### Unresolved Differences and Amounts in Dispute

If a material, unfavorable difference or disputed amount exists in an account with a bank, carrying broker, a commodity or securities clearing organization, or a securities depository, and that difference has not been resolved by the date the financial report is filed or due to be filed (without regard to extensions granted), whichever is earlier, the IB must treat the amount as a noncurrent asset.

Unresolved favorable and unfavorable differences with the same entity may be netted in determining the amount to be classified as noncurrent. A net favorable difference with the same entity should be disregarded. A difference which has been resolved with the opposing party, but which has not yet been corrected in the records, should be treated as a resolved item.

#### Example

The IB in this example is required to file a December 31, 1988, Form 1-FR-IB by no later than January 31, 1989. The IB receives a December 31, 1988, statement from its bank on January 9, 1989, and prepares a reconciliation of the account. The reconciliation discloses the following two differences which the IB has not resolved by the time it files its financial report:

	<u>Item One</u>	<u>Item Two</u>	<u>Net</u>
Cash deposit - books	\$100,000	\$50,000	
Cash deposit - statement	<u>80,000</u>	<u>55,000</u>	
Differences (Unfavorable)	(\$ 20,000)	\$ 5,000	(\$15,000)
	=====	=====	=====

The IB must treat \$15,000 as a noncurrent asset in its December 31, 1988, report. It is expected that IBs will resolve such differences and not carry them over to the next month-end. The same treatment applies to the reporting of material unresolved differences in an IB's monthly net capital computation.

#### Consolidated Financial Report

If an IB guarantees, endorses, or assumes, either directly or indirectly, the obligations or liabilities of any subsidiary or affiliate company, the IB must consolidate the assets and liabilities of the subsidiary or affiliate in its financial report. If the consolidation results in an increase in excess adjusted net capital over that which the IB would have reported if it filed an unconsolidated statement, the IB may recognize such increase only if it has obtained an opinion of counsel which contains the representations as to the distribution of net assets prescribed in Commission Regulation 1.17(f)(2).

The opinion of counsel must be renewed with each annual audit and retained by the IB. The opinion need not be filed with the Form 1-FR-IB, unless requested by an SRO or the Commission. If a benefit

results from the consolidation, but the IB is unable to obtain a favorable opinion from counsel, the IB must make a net adjustment eliminating the benefit on page 5, line 12, of the Form 1-FR-IB.

The opinion of counsel which an IB is required to obtain before it can take advantage of any consolidation benefit must be obtained from outside counsel. An opinion from an attorney who is an employee of the IB is not satisfactory.

If the facts on which counsel relied in rendering his opinion change materially, the IB should promptly obtain a new opinion from counsel.

#### Retention Requirements

An IB must retain for at least 5 years a copy of each Form 1-FR-IB it files, together with all the working papers and memoranda used in the preparation of the report. Working papers and memoranda must be made available promptly for review by representatives of the Commission or the IB's DSRO.

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FORM 1-FR-IB COVER PAGE

The Cover Page must be answered in its entirety. If an item does not apply, the IB should write "None" or "N/A" on the line item, as applicable.

A report is incomplete until all statements and schedules have been filed and all relevant questions answered by the registrant.

- Item 0010            Show the name of the Company as it is registered with the Commission. Do not use DBAs or divisional names. Do not abbreviate.
- Item 0020            Show the employer identification number issued by the Internal Revenue Service. If such number has not yet been assigned, as may be the case with applicants for registration, show the status as either "applied for" or "not yet applied for".
- Item 0030            Show the registration identification number assigned by NFA. If such number has not yet been assigned (applicants only), show "not yet assigned" in the box.
- Item 0040            Identify the person who should be contacted concerning this report. The person need not be an officer or partner of the IB, but should be a person who can answer any questions concerning this specific report.
- Item 0050            Show the address of the registrant's headquarters office. If the records supporting this report are maintained at a location other than the headquarters office, show the records location address and note in the box "Records Address".
- Item 0060            Show the telephone number of the contact person whose name appears in item 0040.
- Line 1.              Show the beginning and ending dates of the report. This same time period should be used in preparing the income statement, and statements of changes in ownership equity and subordinated debt.

Line 2. Check the appropriate box to identify the type of report. If the report was one requested by either the Commission or an SRO, check the "Special Call" box and identify who requested the report by specifying "CFTC" or the name of the SRO.

If the report is a regular quarterly/semiannual report, but the filing due date was accelerated by the Commission or an SRO, check both the "Regular quarterly/semiannual" and "Special call" boxes, and note in the "Special Call" box "Accelerated filing - (SRO's name or CFTC)".

Line 3. Check the appropriate box to identify whether the report is an initial filing or an amended report.

Line 4. Identify the registrant's Designated Self-Regulatory Organization. This will be either a commodity exchange or National Futures Association.

Line 5. Show only those companies which are consolidated in the IB's Form 1-FR-IB. Do not include unconsolidated companies. Show the full name of the company, the IB's percentage ownership in the company and the company's line of business. If the IB owns both common and preferred classes of stock, the IB should show individually its interest in each class of stock.

#### Attestation

An SRO may require an IB to file a separate attestation page with supplemental schedules it requests. If the IB files such separate attestation page, the IB's Chief Financial or Executive Officer must nevertheless sign the attestation on the Cover Page to the Form 1-FR-IB and type or print the signer's name below the signature. If the IB is a corporation, the chief executive officer or chief financial officer must also show his or her corporate title (President, Vice-president, Treasurer, etc). The date the attestation was signed must be shown.



STATEMENT OF FINANCIAL CONDITION - ASSETS

Line 1. - Cash

Include petty cash and unrestricted cash deposits. Cash in an account that is subject to a withdrawal restriction is to be reported as noncurrent. Funds in accounts where the depository reserves the right to impose a notice period prior to releasing the funds to the IB, but has not actually exercised such right to notice, should be reported as a current asset.

Non-negotiable certificates of deposit (bank savings certificates) may be considered current, if an IB can withdraw such funds immediately after paying the depository's normal penalty for withdrawing time deposit funds before maturity. The amount reported as current is the face amount of the instrument, less any potential penalty. The remainder should be reported as noncurrent. Accrued interest receivable should be reported on line 7.D.

Example

CD balance per books	\$300,000
Total withdrawal penalties	< <u>6,000</u> >
Net amount recoverable	\$294,000
	=====

Of the \$300,000 total reportable, \$294,000 should be reported as a current asset and \$6,000 as noncurrent.

Funds in money market deposit accounts should be reported as a current asset, unless the bank has actually exercised any right it has to impose a notice requirement on the depositor prior to release of the funds.

Negotiable CDs, bankers acceptances, and commercial paper should be reported on line 2 of the Statement of Financial Condition.

Funds held in escrow should be reported as a noncurrent asset.

Funds with Affiliates

Cash deposited with a bank which is a parent or an affiliate of the IB can be included as a current asset only to the extent the balance represents a normal day-to-day operating balance. (At the present time Commission staff is in discussion with SEC staff in regard to a definition of 'normal day-to-day operating balance' in order to maintain a uniform application of the net capital rule in this area.)

### Overdrafts

Bank overdrafts are not to be netted against balances in accounts with other banks. Such overdrafts should be reported on page 3, line 14. The IB should type in "(Overdraft)" after "Loans payable", Overdrafts can be netted against debit balances in other accounts carried at the same bank, providing the bank has the absolute right to offset the balances in such accounts.

### Line 2. - Securities

Marketable securities held by an IB must be reflected at current market value. Securities which are not readily marketable or which are restricted as to their transferability should be reported as a noncurrent asset.

If securities are on deposit with a futures commission merchant or foreign broker, they should be included on line 4.A and not on line 2.

An IB should be familiar with the percentage haircuts applicable to securities. The haircuts are in SEC's rule 240.15c3-1(c) (2) (vi). They are reproduced in Appendix B to these instructions. The haircuts do not apply to accrued interest on a securities position.

### Line 3. - Securities purchased under resale agreements

Securities purchased under reverse-repurchase agreements should be reflected as a current asset in an amount equal to the funds initially disbursed, plus interest accrued on the position. Obligations resulting from repurchase transactions should be reflected as a liability on page 3, line 18, and should not be netted against reverse repurchase agreements. The charges applicable to reverse repurchase agreements are specified in Appendix A to these instructions. Any applicable haircut should be reflected on page 4, line 7.A.

Example begins on next page.

Example 1

On 11-28-XX an IB enters into a reverse-repurchase agreement with its bank and disburses \$950,000 to the bank. The agreement is collateralized by a \$1 million U.S. Treasury bond. The agreement requires the IB to reverse the transaction with its bank on 12-2-XX (four days later), at which time it will receive \$951,000. On 11-30 the market value of the bond is \$948,000. The IB has no other repurchase or reverse-repurchase agreement.

On its 11-30-XX financial report the IB will reflect \$950,500 as a current asset. In addition, the IB must reflect a \$2,500 haircut on page 4, line 7.A.

Amount to be realized at reversal	\$951,000
Original purchase price	<u>950,000</u>
Interest to be earned	\$ 1,000
	=====
Accrued interest at 11-30	\$ 500
Original purchase price	<u>950,000</u>
Current asset on statement of financial condition	\$950,500
Market value of Treasury bond	<u>948,000</u>
Reverse-repurchase deficit	\$ 2,500
	=====

Example 2

The same situation exists as in Example 1, except that the market value of the Treasury bond at 11-30 is \$955,000. The IB will still report \$950,500 as a current asset on line 3, but there is no additional charge to be taken because the market value of the bond exceeds the amount reflected as a current asset.

Arrangements Similar to Reverse Repurchase Agreements

An IB which enters into transactions that are similar to transactions under reverse repurchase agreements, but bearing different names, such as 'overnight investments' or 'sale and buy-back agreements', must report such transactions in the same manner as reverse repurchase agreement transactions.

Line 4. - Receivables from FCMs and Foreign Brokers

Line 4.A. - Equity in trading accounts

Show on Line 4.A. the net liquidating equity in accounts with registered FCMs. The amount on Line 4.A. should include, for proprietary accounts, the debit or credit ledger balance, the unrealized gain or loss on open futures positions, the current net long or short value of open option contracts, and any securities at current market value.

An account with an FCM which liquidates to a deficit should not be netted against accounts that liquidate to an equity. Accounts that liquidate to a deficit are should be reported on page 3, line 15 - Amounts owed futures commission merchants and other brokers.

Line 4.B. - Commissions and other fees receivable

Report on this line commissions and brokerage receivable from FCMs and foreign brokers. If the amount is outstanding longer than 30 days from the date it is due, it must be reported as a noncurrent asset. If any such receivable is held back by the FCM or broker to cover potential losses or as a security deposit, such amount is to be treated as a noncurrent asset even though the receivable was accrued less than 30 days earlier.

Line 4.C. - Security deposits

An IB should reflect on line 4.C. any funds it is required to deposit with its clearing FCM in order to maintain the clearing affiliation. These are funds over and above funds that may be used to margin, guarantee, or secure commodity trades for the IB's account. Fifty percent of such security deposits may be reported as a current asset.

Line 4.D. - Amounts due from foreign brokers

Line 4.D. is to include the same types of balances as lines 4.A., B., and C., except that they represent balances with foreign brokers. This includes receivables from foreign subsidiaries or affiliates resulting from commodity transactions. The amount reflected as a current asset on line 4.D. is subject to a five percent haircut, to be reflected on page 5, line 10, of the Statement of the Computation of the Minimum Capital Requirements, if the foreign broker is not registered with the Commission.

Line 5. - Inventories

IBs that are also in the business of merchandising goods will reflect inventories on this line at current market value. Obsolete inventory should be classified as a noncurrent asset.

Inventory Haircuts

Inventory reported as a current asset, but which is not covered, is subject to a 20% haircut against its market value. Inventory reported as a current asset and which is covered is subject to a 5% haircut. If the inventory is deliverable against a futures contract on a contract market and is covered, there is no charge. Applicable charges should be shown on page 4, line 5 of the Statement of the Computation of the Minimum Capital Requirements.

Line 6. - Secured demand notes

A secured demand note ("SDN") collateralized by readily marketable collateral should be shown at the note's face value as a

current asset. If the IB has received an SDN collateralized by other than readily marketable collateral, the face value of the note should be reflected as a noncurrent asset. The value of the collateral and the haircut against the collateral must be shown parenthetically on this line.

If the collateral value of readily marketable collateral supporting an SDN is less than the face value of the note, the full amount of the note should still be reflected as a current asset. The deficiency in the collateral will be shown as a charge against net capital on page 5, line 11, of the Statement of the Computation of the Minimum Capital Requirements.

Example

Secured demand note		\$200,000
Collateral - AT&T common stock		
Market value	\$250,000	
Haircut (30%)	< 75,000 >	
Collateral value		<u>175,000</u>
SDN deficiency		\$ 25,000 =====

The \$200,000 SDN should be shown as a current asset and a \$25,000 charge should be reflected on page 5, line 11.

Only cash and securities which are fully paid for and have a "ready market", as that term is defined, and which may be publicly offered or sold without registration under the Securities Act of 1933, and the offer, sale and transfer of which are not otherwise restricted, may be pledged as collateral to secure a secured demand note. See Readily Marketable on page 2-3 of these instructions.

Securities used as collateral for an SDN must be in bearer form, or registered in the IB's name, or the name of its nominee or custodian. Otherwise, no collateral value is allowed.

Excess value in the collateral for one SDN may not be applied to a deficiency in another SDN's collateral.

The lending of securities to an IB under a subordinated loan agreement is not recognized under CFTC rule 1.17(h), and the resulting liability will not be excluded from liabilities in calculating net capital. A satisfactory subordinated loan agreement covers only the lending of cash or a demand note secured by cash or readily marketable securities.

If a deficiency in SDN collateral exists, there are alternative actions that can be taken to remedy the deficiency. The IB should review section 1.17(h)(2)(vi) of the regulations or consult with its DSRO.

Line 7. - Other receivables and advances

Various types of receivables not reported elsewhere should be reported here.

Line 7.A. - Notes receivable

A note receivable will be considered current if it is secured by readily marketable collateral. A merchandising receivable converted to an unsecured note receivable will be considered noncurrent at the time of conversion even if three months has not elapsed since the original accrual of the merchandising receivable.

Line 7.B. - Commissions receivable

Report on this line commissions and management fees from registered investment companies and commodity pools. If the amount is outstanding longer than 30 days from the date it is due, it must be reported as a noncurrent asset.

Line 7.C. - Receivables from employees and associated persons

Receivables from employees and associated persons also includes amounts due from officers and partners of an IB. The receivable is classified as noncurrent unless secured by readily marketable collateral as defined in regulation 1.17(c)(3). If secured, the receivable can be treated as current to the extent of the securities' collateral value (current market value less applicable haircuts).

Line 7.D. - Dividends and interest

Interest receivable outstanding no more than 30 days from its due date should be shown here. A dividend receivable outstanding no longer than 30 days from its payable date should also be shown as a current asset. If interest or dividends are outstanding more than 30 days or it is questionable that the amounts will be collected even if under 30 days, such amounts should be reported as a noncurrent asset. Do not net receivables against payables in reporting dividends and interest.

Line 7.E. - Taxes receivable

Taxes receivable are to be reported as a noncurrent asset, even though the taxing authority has certified the tax refund payable to the IB.

Line 7.F. - Receivables from subsidiaries and affiliates

Receivables from affiliates should be reported as a noncurrent asset unless the affiliate has delivered readily marketable collateral to the IB. The IB may not deposit such collateral with any affiliated company, nor may it accept securities issued by the affiliate as collateral. If it does either, the receivable must be classified as a noncurrent asset.

An unsecured receivable resulting from expenses paid by an IB on behalf of an affiliate should be reflected as a noncurrent asset.

Affiliates include the IB's parent company (including companies having direct or indirect control of the parent), companies under the direct or indirect control of the IB, and companies under common control with the IB.

Line 7.G. - Other

Material amounts included in this line must be itemized on a separate page attached to the financial report. The itemization must show the amount and a description of the receivable, and, if classified as a current asset, the basis for classifying it as such.

Other noncurrent assets to be reported here include, but are not limited to:

- rent and utility deposits

Line 7.H. - Allowance for doubtful accounts

Report here the balance in an IB's allowance for accounts doubtful of collection. The allowance should not exceed noncurrent assets reported on line 7.

Line 8. - Exchange memberships

Report as a noncurrent asset the cost of memberships owned. Report parenthetically the market value (lower of last sale or current bid) of such memberships.

Line 9. - Investments in subsidiaries

Generally, an investment of more than 50% in a company will require the IB to file a consolidated financial report. See Statement of Financial Accounting Standards No. 94 (Consolidation of All Majority-Owned Subsidiaries) which is effective for fiscal years ending after December 15, 1988.

Other investments in a company where the IB has the ability to exercise significant influence over the company's operating and financial policies will require the IB to account for such investment under the equity method. Such ability to influence is presumed for investments of 20% or more. If the IB's investment in the subsidiary is readily marketable, the current market value should be reported as a current asset on line 2. See the definition of Readily Marketable on page 2-3. If not readily marketable the IB should report such investment on this line as a noncurrent asset.

Line 10. - Plant, property, equipment and capitalized leases

Report as a noncurrent asset the cost (net of accumulated depreciation and amortization) of all fixed assets -- property, furniture, equipment, leasehold improvements, capitalized leases and all other non-security assets -- which cannot be readily converted into cash. However, an IB may treat fixed assets, and assets which otherwise would be considered noncurrent, as current --

a. to the extent of long term debt adequately collateralized by assets acquired for use in the ordinary course of the IB's business;

OR

b. to the extent of any long term debt adequately collateralized by assets of the IB, if the sole recourse of the creditor for nonpayment of the debt is to such asset.

Liabilities are considered adequately collateralized only if they are secured by identified assets pursuant to legally enforceable written instrument, the market value of the assets exceeds the amount of the liability, and the assets are not otherwise encumbered.

Exchange memberships may not be considered as adequate collateral for any form of liability.

#### Example 1

IB A, whose only business activity is commodity futures and options brokerage, purchases land for speculation with funds borrowed under a five-year note. Under the terms of the loan agreement, the creditor could secure a lien against the land as well as any other assets of the IB if the IB fails to repay the loan. The land is not encumbered in any other manner.

In this situation the land would be treated as a noncurrent asset because the land was not acquired for use in the IB's trade or business and the creditor has recourse for nonpayment to assets other than the land. The loan payable would not be excluded from liabilities in calculating unadjusted net capital.

#### Example 2

The same situation exists as in example No. 1, except the only recourse the creditor has for nonpayment of the loan obligation by the IB is to the land. In this case, even though the land is not being used in the trade or business of the IB, the IB can treat the land as a current asset to the extent of the long term portion of the loan obligation still outstanding because the creditor's sole recourse for nonpayment is to the land. Also, the loan obligation would not be excluded from liabilities.

#### Example 3

IB B purchased \$24,000 of office furniture to be used in its futures brokerage business and finances part of the purchase with a \$15,000 three-year loan. Annual payments of \$5,000 are to be made with the first payment due six months from the date of the IB's financial report.



In this case, \$10,000 of the \$24,000 in furniture can be treated as a current asset; none of the \$15,000 loan obligation will be excluded from liabilities in computing net capital. (If the furniture that was purchased is used in a segment of the IB's business that involves other than commodity futures or options, or securities brokerage, such as a bookkeeping service for others, the IB has available an alternative treatment. In such case, \$10,000, the noncurrent portion of the loan obligation, could be excluded from liabilities, if the office furniture was also excluded from current assets. The exclusion of the liability is made on page 4, line 3.D., of the Statement of the Computation of the Minimum Capital Requirements.)

Line 11. - Prepaid expenses and deferred charges

Prepaid expenses and deferred charges are to be reported as noncurrent assets.

Line 12. - Other assets

The IB should report here assets not readily classifiable into other previously identified categories. The IB must itemize on an attachment to the report both the current and noncurrent portions of material amounts included on this line. The itemization should include a brief description and an amount.

Cash Surrender Value of Life Insurance

The cash surrender value of life insurance may be treated as a current asset, reported on line 12, if: (a) the IB owns the policy, and (b) the face amount of the policy is payable to the IB.

Line 13. - Total assets

For each column show the total of lines 1. through 12. The sum of the totals for the current and noncurrent asset columns should equal the sum of the total assets column. Total current assets should be carried to page 4, line 1, of the Statement of the Computation of the Minimum Capital Requirements.

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Statement of Financial Condition - Liabilities  
Page 5-10.

STATEMENT OF FINANCIAL CONDITION - LIABILITIES

Line 14. - Loans Payables

Report here bank loans. A loan is considered adequately collateralized if, pursuant to a legally enforceable written instrument, the loans are secured by identified assets that are otherwise unencumbered and the market value of which exceeds the amount of the loan.

Report on this line overdrafts in accounts which are not offsettable against other accounts at the same bank (see instruction for line 1 -- Overdrafts).

Line 15. - Amounts owed futures commission merchants and other brokers

Report on this line all amounts owed to FCMs and other brokers. Include net liquidating deficits in trading accounts with FCMs and brokers.

Line 16. - Accounts payable, accrued expenses and other payables

Report on this line in the appropriate category, the total accounts payable, accrued liabilities, expenses, and all other such liabilities of the IB not previously reported.

Line 16.A. - Accounts payable and accrued expenses

Report all accounts payable, accrued expenses, and such other liability items not classified elsewhere.

Accruals should be made for liabilities which would result from guarantees or contingencies when occurrence of a loss is probable, and the amount can be reasonably estimated.

Line 16.B. - Salaries, wages, commissions and bonuses payable

Include here the accrual for earned but unpaid salaries, wages, commissions, and any declared but unpaid bonuses.

Line 16.C. - Taxes payable

Report here estimated accruals for federal, state, and local income taxes. Payroll taxes withheld but not yet deposited and the IB's portion of accrued payroll taxes should be reported on this line.

Line 16.D. - Deferred income taxes

Report here the deferred tax liability accrued due to timing differences in reporting net income between the firm's books and its income tax returns. In some instances the deferred tax

liability may be excluded from total liabilities in computing net capital on page 4, line 3.B. (See regulation 1.17(c) (4) (iv))

Line 16.E. - Security deposits held

Report here the liability for all security or guarantee deposits held by the firm. Include on this line commissions due account executives which have been held back as a guarantee for collection of deficit balances. Also, include on this line amounts received from account executives which represent security or escrow deposits.

Line 16.F. - Other (itemize on a separate page)

Miscellaneous payables not classifiable elsewhere are reported here and material amounts must be itemized on a separate page to be submitted with the Form 1-FR- IB.

IBs Which are Sole Proprietors

An IB which operates as a sole proprietorship should include on this line the excess of liabilities which have not been incurred in the course of its business as an IB over assets not used in such business.

Due to subsidiaries and affiliates

Report on this line amounts owed to affiliates. This includes funds borrowed and expenses paid by the affiliate for the benefit of the IB. Funds borrowed pursuant to subordination agreements should be reported on page 3, line 19.

Unless an IB can demonstrate a legal right of setoff, it may not net the receivables and payables due from/to its affiliates. An IB can refer to Financial Accounting Standards Board Technical Bulletin No. 88-2, Definition of a Right of Setoff, for guidance. Besides the conditions set forth in Bulletin No. 88-2, the IB's right of setoff must be evidenced in an agreement signed by the parties whose balances are subject to setoff.

Affiliates include the IB's parent (including companies that have direct or indirect control of the parent), companies under direct or indirect control of the IB, and companies under common control with the IB.

Line 17. Collateralized notes and mortgages payable

Report here collateralized notes and mortgages other than loans due to banks. Bank loans should be reported on line 14.

Line 18. - Securities sold under agreements to repurchase

Report here the proceeds received on the sale, as principal, of proprietary securities under repurchase agreements. Include the

repurchase side of matched agreements. For purposes of this report such sales of securities are not to be treated as sales, but rather as a financing arrangement.

An IB that enters into repurchase transactions must be familiar with the charges it may be required to take against unadjusted net capital. Such charges are specified in SEC rule 240.15c3-1(c)(2)(iv)(F)(3).

Haircuts applicable to repurchase agreements are specified in Appendix A to these instructions. Any applicable haircut should be reflected on page 4, line 7.B.

Example - Repurchase Agreement

On 11-28-XX the IB enters into a repurchase agreement with its bank and receives \$950,000 from the bank. The agreement is collateralized by a \$1 million U.S. Treasury bond owned by the IB. The agreement requires the IB to reverse the transaction with its bank on 12-2-XX, at which time it will disburse \$951,000. On 11-30 the market value of the Treasury bond is \$954,000. The IB has no other repurchase or reverse-repurchase agreement.

On its 11-30-XX financial report the IB will reflect \$950,500 as a current liability. There is no charge against net capital because the repurchase agreement deficit does not exceed 5% of the contract price. (The percentage to be applied varies with the type of security -- see Appendix A.)

Amount to be disbursed at reversal	\$951,000
Original sales price	<u>950,000</u>
Interest to be earned by bank	\$ 1,000
	=====
Accrued interest payable at 11-30	\$ 500
Original sales price	<u>950,000</u>
Liability to be shown on statement of financial condition (Contract price)	\$950,500
Market value of Treasury bond	<u>954,000</u>
Repurchase agreement deficit	\$ 3,500
5% of the contract price (5% x \$950,000)	<u>\$ 47,500</u>
Charge against net capital	-0-
	=====

Line 19. - Liabilities subordinated to claims of general creditors

Line 19.A. - Subject to a satisfactory subordination agreement  
Regulation 1.17(h) sets forth minimum and nonexclusive requirements which must be met for a subordinated loan to

qualify for exclusion from liabilities, a satisfactory subordination agreement. A subordinated loan agreement involves a lender providing an IB with cash, or with a secured demand note collateralized by the lender's pledge of securities or cash.

Generally, interest on subordinated debt must be included in liabilities in determining adjusted net capital. Accrued interest on subordinated debt can be excluded from liabilities only if the following conditions are met:

1. the interest rate can be directly ascertained from the subordination agreement or related note. If the rate is tied to an external factor such as the prime rate or federal funds rate, this condition is not met;
2. by the terms of the agreement, the accrued interest can not be paid to the lender for a year after it is due to be paid. Example: The IB prepares a 12/31/87 1-FR. Accrued interest of \$5,000 is due and payable on that date. The agreement prohibits the IB from paying the interest before 12/31/88;
3. all accrued interest due on a subordinated loan must be treated the same way. The entire amount accrued on a loan must be either included or excluded from liabilities, except that interest accrued in the last year of a subordination agreement's term may not be excluded; and
4. the subordinated loan agreement had an original maturity of at least one year.

Cash as Collateral for Secured Demand Note

An IB which receives cash as collateral for a secured demand note may use such cash in its ongoing operations. Where the IB receives cash as collateral, it must record the cash received and a corresponding liability. The liability should be reported on page 3, line 16.F. (other payables) and described in the separate itemization required for this line.

Line 19.B. - Not subject to a satisfactory subordination agreement

Report on this line liabilities which are effectively subordinated to the claims of creditors, but which are not subject to an agreement that satisfies the requirements of regulation 1.17(h) for a satisfactory subordination agreement.

Line 20. - Total liabilities

Show here the total of liabilities reflected on lines 14 through 19. The total should be carried forward to page 4, line 2 of the net capital computation.

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Statement of Financial Condition - Ownership Equity  
Page 6-5.

STATEMENT OF FINANCIAL CONDITION - OWNERSHIP EQUITY

Line 21. - Sole proprietorship

Report the total equity of a sole proprietorship. Sole proprietors should note that they are required to report the excess of non-business liabilities over non-business assets on line 16.F. of the Statement of Financial Condition. See page 5-2 of these instructions.

Line 22. - Partnership

Line 22.A. - Partnership contributed and retained capital

Report the total equity of a partnership.

Line 22.B. - Additional capital per partnership agreement

Line 22.C. - Total

This is the total of lines 22.A and 22.B.

Line 23. - Corporation

Report in the appropriate category preferred and common stock issued, additional paid in capital and retained earnings. The sum of these, shown at line E will be reduced by capital stock in treasury, shown at line F.

Line 24. - Total ownership equity

Show the balance appearing on line 21, 22.C., or 23.G., as appropriate.

Line 25. - Total liabilities and ownership equity

The total of liabilities plus ownership equity must equal total assets as reflected on page 2, line 13, item 1680.

STATEMENT OF THE COMPUTATION OF THE MINIMUM CAPITAL REQUIREMENTS

Line 1. - Current assets

The amount on this line should agree with the amount shown on page 2, line 13, item 1670.

Line 2. - Total liabilities

The amount on this line should agree with the amount shown on page 3, line 20.

Line 3. - Deductions from total liabilities

Line 3.A. - Liabilities subject to satisfactory subordination agreements

Show on this line liabilities subordinated to the claims of general creditors. An amount may be deducted only if: (1) the liability is covered by a subordination agreement which meets all of the conditions specified in regulation 1.17(h) (2); and (2) the agreement has been reviewed and found acceptable by the IB's DSRO or the Commission.

Line 3.B. - Certain deferred income tax liability

Enter the amount of any deferred income tax liability related to the following:

(a) The lesser amount resulting from applying the appropriate Federal and State income tax rates against the unrealized gain or the applicable haircut deduction. Example: An IB owns common stock with a current market value of \$10,000 and it has an unrealized gain of \$1,000. Assuming a 50% tax rate results in a deferred tax of \$500 and a \$3,000 charge against net capital (30% haircut). Therefore, the deduction is \$500, since applying the 50% tax rate against the \$1,000 unrealized gain (\$500 tax) is less than the amount that results from applying the tax rate to the \$3,000 haircut (\$1,500).

(b) Any deferred tax liability related to income accrued which is directly related to any noncurrent asset. An example is accrued income receivable on debt securities without a ready market.

(c) Any deferred tax liability related to unrealized appreciation in value of any noncurrent asset. An example is the deferred tax liability on the unrealized gain on securities without a ready market.

Line 3.C. - Certain current income tax liability

Enter the amount of any current tax liability related to income accrued which is directly related to any noncurrent asset. An example is commission income receivable which has been outstanding for more than 30 days.

Line 3.D. - Long term debt pursuant to regulation 1.17(c) (4) (vi)  
An IB may exclude long term debt from total liabilities under the following conditions:

1. the IB reports plant, property, and equipment that is used in a segment of its business other than that involving securities or commodities futures/options dealings; and
2. such plant, property, and equipment has not been included in current assets.

For purposes of this exclusion, long term debt and business segment are defined under generally accepted accounting principles. The amount of the liability to be excluded is limited to the net book value of the plant property and equipment.

See also the instructions to line 10 (plant, property, and equipment) of the Statement of Financial Condition.

Example

An IB carries on a commodity futures business and operates a retail farm implement sales outlet. The extent of the IB implement sales operation is such that it would be treated as a separate business segment under generally accepted accounting principles. Net book value of property and equipment used in the farm implement sales operation is \$5,500,000. It reports the entire \$5,500,000 as a noncurrent asset on line 10 of the Statement of Financial Condition. The IB carries a liability for a mortgage of \$3,000,000, \$300,000 of which represents principal payments due within the next twelve months. The IB may show \$2,700,000 of the mortgage liability on line 3.D.

Line 3.E. - Total deductions  
The total of lines 3.A. through 3.D.

Line 3.F. - Adjusted liabilities  
Subtract line 3.E. from line 2.

Line 4. - Net capital

Subtract line 3.F. from line 1

Lines 5. through 12. - Charges against net capital

These lines reflect various charges the IB is required to take against unadjusted net capital. They are detailed in Regulation 1.17(c) (5).



Line 5. - Haircuts on cash commodity inventories, fixed price commitments, forward contracts, and advances paid.

The following charges are to be taken against cash commodities in the IB's inventory, fixed price commitments, and forward contracts. An IB should combine its inventory, fixed price commitments, forward contracts, futures position, and equivalent options position, and apply charges to the net uncovered position. The various positions which may be combined must qualify under the definition of 'cover' in regulation 1.17(j). In combining the positions the IB may combine them in a manner most favorable to the IB. If futures and equivalent options positions exceed inventory, a charge is applicable to such futures/options positions and is to be shown on line 9.

These charges are not applicable to securities owned by the IB. Charges against securities are taken on line 6.

	<u>Percentage of Market Value to be Deducted</u>
(a) Inventory covered by open futures contracts and registered as deliverable on a contract market.	0 %
(b) Inventory covered by open futures contracts or commodity options, but not registered as deliverable on a contract market.	5 %
(c) Inventory <u>not</u> covered by open futures contracts or commodity options.	20 %
(d) Fixed price commitments and forward contracts covered by open futures contracts or commodity options.	10 %
(e) Fixed price commitments and forward contracts <u>not</u> covered by open futures contracts or commodity options.	20 %

Foreign Currency Positions

If an IB carries forward contracts in foreign currencies or deposits in foreign currencies, there is no charge to be taken if (1) the currencies are of the type traded on a contract market, and (2) the forward contract or deposit is covered.

An IB which carries assets and liabilities which are denominated in a foreign currency must take a charge against net capital for the net amount of uncovered foreign currency balances. Assets, liabilities, forward contracts, and fixed price commitments in the same currency are to be factored together in the determining the

amount subject to the charge. The net balances in British pounds, French francs, Japanese yen, Deutschemarks, Canadian dollars, and Swiss francs are subject to a 6% charge. (The 6% charge is less than that strictly called for by Commission regulation 1.17(c)(5)(ii) which would require an IB to take a 20% charge for uncovered positions. This relief is also consistent with SEC's interpretation in regard to such charges.) The net balance in any other currency is subject to a 20% charge.

Example

An IB carries the following balances in British pounds:

British pound bank account	50,000
Amount due U.K. vendors	<u>16,000</u>
Excess of pound assets over liabilities	34,000 =====
Pounds converted to US dollars @ \$1.56/	\$53,040 =====
Charge against net capital @ 6%	\$ 3,182 =====

The charge should be reported on page 4, line 5 of the Form 1-FR-IB.

Line 6. - Haircut on securities held by IB

All marketable securities are to be reflected in the statement of financial condition at current market value. However, for net capital computation purposes, securities may not be allowed their full market value. The IB should show the market value of securities included in current assets on lines 6.A. through F. under the Market Value column and the related haircut under the Charge column. All securities owned by the IB should be included under the Market Value column, even though there is a zero haircut. Any charges applicable to open contractual commitments relating to securities transactions should also be reflected on line 6.

The percentage charges to be applied are found at SEC Rule 15c3-1(c)(2)(vi), (vii) and (viii). See Appendix B to these instructions.

Line 7. - Charges against repurchase and reverse repurchase transactions

Line 7.A. - Charges against securities purchased under agreements to resell ("reverse-repurchase agreement")

Enter the amount of the deficiency, if any, between the contract price of the agreement, which includes accrued interest, and the market value of the securities subject to the agreement as provided by SEC rule 15c3- 1(c) (2) (iv) (F) (2). A charge will not also be taken against the security itself. See Appendix A to these instructions.

See pages 4-2 and 4-3 for an example of the calculation of a charge against a reverse-repurchase agreement.

If the IB enters into an agreement which is similar to a reverse-repurchase agreement, regardless of the name appended to the transaction (for example, sale and buy-back agreements or overnight investments), the charge to be taken is the same as that for reverse-repurchase agreements.

Line 7.B. - Charges against securities sold under agreements to repurchase ("Repurchase agreement ")

Enter the amount based on the percentages specified by SEC rule 15c3- 1(c) (2) (iv) (F) (3). Also, the appropriate securities inventory haircuts should be taken since such securities at market value are considered continuously owned by the IB because of the contractual agreement to reacquire. See Appendix A.

See pages 5-2 and 5-3 for an example of the calculation of a charge against a repurchase agreement.

Line 8. - Charges on securities options

Enter the amount specified by SEC rule 240.15c3-1 for any securities options positions carried (Appendix A to 17 CFR 240.15c3-1) or SEC Rule 15c3-1(c) (2) (x), if the IB qualifies for such deduction.

Line 9. - Charges against open commodity positions in proprietary accounts

An IB must take a charge against unadjusted net capital for uncovered futures or options positions in its commodity trading account. The charge is a percentage of the clearing house margin requirements applicable to speculative positions in the account.

Line 9.A. - Uncovered exchange-traded futures and granted options contracts

Explanation and Examples

Commission regulation 1.17(c) (5) (x) provides net capital haircuts against uncovered open futures and granted (sold) commodity option contracts held in the IB's proprietary accounts. The charge applies to positions on U.S. markets as well as those on foreign markets. The percentage haircut required is determined by the IB's clearing relationship to the exchange on which the contract is cleared:

- A. - 100% of the clearing organization's applicable margin requirement where the IB is a member of a clearing organization and it has itself cleared the trade that is subject to the charge directly at the clearing organization;
- B. - 150% of the greater of the board of trade or clearing organization's maintenance margin requirement where the IB is a member of a self- regulatory organization;
- C. - 200% of the applicable margin requirement for an IB which is not a member of any commodity self-regulatory organization;
- D. - 200% of the applicable initial margin requirement where there are no maintenance margin requirements.

Cover

Both the futures/options position and the related cover position (inventory or forward contracts) must be carried on the books of the reporting IB. It is not sufficient that the cover be carried on the books of an affiliated company.

### Example

Assume contract A has a \$4,000 initial and a \$3,000 exchange imposed maintenance margin requirement. The clearing organization's margin requirement is \$2,500.

<u>Situation</u>	<u>Applicable %</u>	<u>Haircut</u>
1. IB clears its own trade in contract A at the exchange's clearing house.	100%	\$2,500
2. The IB is a clearing member of Exchange X, but clears its exchange X trade in contract A through another clearing member. Percentage is to be applied to greater of exchange maintenance or clearing house requirement.	150%	\$4,500
3. The IB is not a member of any exchange, but is a member of National Futures Association, an SRO. Percentage is to be applied to greater of exchange maintenance or clearing house requirement.	150%	\$4,500
4. The firm is a registered IB, but has not joined any self-regulatory organization. Percentage is to be applied to greater of exchange maintenance or clearing house requirement.	200%	\$6,000

If an exchange happens not to have specified a maintenance margin level, the charge is 200% of the exchange's initial margin requirement.

### Risk-Based Margining Systems

If an exchange's rules provide for margining futures and options positions in an account on a composite basis (so called risk-based margining), the amount subject to the applicable percentage charge is the amount calculated under the risk-based margining system. The charge in such case should be shown on line 9.A. rather than 9.C.

### Short Option Charge; Limitation

The deduction for a short option position is computed by multiplying the applicable safety factor percentage per paragraphs A. through D. above by the clearing organization's option margin requirement. The resulting deduction is limited, however, to the amount that would have been applicable to a futures position in that commodity. This applies only to a risk-based margining system.

Line 9. B. - Ten percent (10%) of the market value of commodities which underlie commodity options not traded on a contract market carried long by the applicant or registrant which has value and such value increased adjusted net capital (this charge is limited to the value attributed to such options)  
This deduction for dealer options traded under Part 32 of the Commission's regulations, is limited to the lesser of the 10% charge or the value of the long option if it was included in net capital.

Line 9.C. - Commodity options which are traded on contract markets and carried long in proprietary accounts. Charge is the same as would be applied if applicant or registrant was the grantor of the options (the charge is limited to the value attributed to such options).

The deduction is computed by multiplying the applicable safety factor percentage per paragraphs A. thru D. above by the applicable option margin requirement. The resulting deduction should be no greater than the option's value included in current assets, nor can it be greater than the charge which would have been calculated for a comparable futures position.

Line 10. - Five percent (5%) of all unsecured receivables from foreign brokers

This charge applies to any unsecured receivable from a foreign broker resulting from commodity futures or option transactions which has been included in current assets. If, however, the foreign broker is registered with the Commission as an IB, or with the SEC as a securities broker or dealer, there is no charge.

Line 11. - Deficiency in collateral for secured demand notes

Any deficiency in collateral for a secured demand note is to be charged against net capital here.

Example

Secured demand note		\$200,000
Collateral - XY&Z common stock		
Market value	\$250,000	
Haircut (30%)	< 75,000 >	
Collateral value		<u>175,000</u>
SDN deficiency		\$ 25,000
		=====

The \$25,000 deficiency will be reflected on this line as a charge.

If a deficiency in SDN collateral exists, there are alternative actions that may be taken. The IB should review regulation 1.17(h) (2) (vi) or consult with its DSRO.

Line 12. - Adjustments to eliminate benefits of consolidation

An IB that files a consolidated financial report should review the discussion under Consolidated Financial Report on page 2-4 of these instructions.

If an IB is required to file a consolidated financial report, but is not able to obtain the opinion from counsel required by regulation 1.17(f) (2) (ii) with respect to distribution of the affiliate's net assets, the IB must take a charge against net capital for the net benefit, if any, derived from the consolidation. A net benefit is derived if the consolidated computation of excess adjusted net capital is greater than the excess that would have resulted from an unconsolidated computation for the IB alone.

Example 1

The IB is required to file a consolidated financial report with a subsidiary, but it is not able to obtain an opinion from counsel that the subsidiary's net assets can be distributed within 30 calendar days.

Excess adjusted net capital for the consolidated group	\$600,000
Excess adjusted net capital for the IB only	<u>480,000</u>
Charge to be taken	\$120,000 =====

Example 2

The same situation exists as in example 1 except that the consolidated group's excess capital is less than the IB's own excess capital.

Excess adjusted net capital for the consolidated group	\$300,000
Excess adjusted net capital for the IB only	<u>320,000</u>
Charge to be taken	\$ -0- =====

The IB will report excess net capital of \$300,000.

If an IB is not otherwise required to consolidate with an affiliate, and it guarantees a specific liability of such affiliate, it may in lieu of preparing a consolidated financial report reflect

only the amount of such liability on this line. The IB should explain the item on an attachment to the schedule.

Line 13. - Total charges

This is the total of lines 5 through 12.

NET CAPITAL COMPUTATION

Line 14. - Adjusted net capital

Deduct the total charges on page 5, line 13 from net capital on page 4, line 4.

Line 15. - Net Capital Required

The line has the IB's \$20,000 net capital requirement preprinted. However, if the IB is not a member of a DSRO, it should cross out that amount and substitute \$40,000.

If a registered IB does not have a DSRO, the minimum net capital requirement is \$40,000, rather than \$20,000. An applicant for registration which has an application for membership in an SRO pending at the time its IB registration application is filed, may reflect a \$20,000 requirement.

Line 16. - Excess net capital

Subtract line 15. from line 14.



FORM 1-FR-IB

Instructions

Statement of Income (Loss)/Changes in Ownership Equity

Page 8-11.

STATEMENT OF INCOME (LOSS)

This statement is required to be filed at the end of an IB's fiscal year, though the Commission or an SRO can request the IB to file it at any time during the year.

STATEMENT OF CHANGES IN OWNERSHIP EQUITY

The period covered by this statement should be the period since the Form 1-FR-IB was last filed.

Line 1. - Total ownership equity as previously reported

The amount reported should reflect the total ownership equity reported as of the date of the immediately preceding financial report filed with the Commission. Applicants for registration which have not been operating any other business should show zero. Applicants which have been operating another business should show the amount of ownership equity at the close of their last fiscal year.

Line 2. - Net income (loss) for period

Add net income (deduct a loss) resulting from operations for the period. If the Form 1-FR-IB includes a Statement of Income (Loss), the amount on line 2 should agree with page 6, line 24.

Line 3. - Other additions to capital

Add the amount of any increases in ownership equity during the period and explain fully in the space provided. If stock was issued, the class should be identified.

Line 4. - Dividends

Deduct the amount of any dividends declared or paid during the period.

Line 5. - Other deductions from capital

Deduct the amount of any reduction in ownership equity during the period and explain fully in the space provided.

Line 6. - Balance

The result of the foregoing additions and deductions should be entered and should agree with the amount reported on page 3, line 24, of the Statement of Financial Condition.

STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED TO THE CLAIMS OF  
GENERAL CREDITORS PURSUANT TO A SATISFACTORY SUBORDINATION AGREEMENT

Two columns are shown for each line item. The IB should show in the left column total satisfactory subordinated debt and in the right column the IB should show that portion of subordinated debt that qualifies as equity capital. Equity capital is explained on the next page.

Line 1. - Total subordinated borrowings as previously reported

The amount reported should reflect the total subordinated debt reported as of the date of the immediately preceding financial report filed with the Commission.

Line 2. - Increases

Add the amount of any increase in satisfactory subordinated debt during the period and explain fully in the space provided. In the space provided for the date, show the date the funds were received. If the funds were received on a date before or after the agreement was approved by the IB's DSRO, show the approval date as part of the explanations section.

Line 3. - Decreases

Deduct the amount of any decreases in satisfactory subordinated debt during the period and explain fully in the space provided. The explanation should include whether the decrease was due to maturity, prepayment before maturity, conversion to capital, etc. Rollovers should be reported as both a decrease (maturity) and an increase (new subordinated loan). Subordinated loan prepayments (including conversions of subordinated debt to capital) must be approved by the IB's DSRO prior to the prepayment being made.

There may be a decrease in subordinated debt that qualifies as equity capital without a corresponding decrease in total subordinated debt. This will occur when the time to maturity of subordinated debt that previously qualified as equity capital becomes less than one year. In such instance the explanation of the decrease should state that the term to maturity has become less than one year.

Line 4. - Balance

The total (item 4630) should agree with the amount reported on page 3, line 19.A., of the Statement of Financial Condition.

## Equity Capital

Equity capital is the total of:

- A. An IB's ownership equity/partnership capital accounts, and
- B. that amount of the IB's total satisfactory subordinated debt that qualifies as equity capital.

Subordinated debt qualifies as equity capital if it meets the following conditions:

- A. the subordinated loan agreement was entered into by a partner or stockholder in the IB;
- B. the subordination agreement has an initial term of at least three years;
- C. the agreement has a remaining term of at least one year. This means subordinated debt covered by an agreement that matures in the next year no longer qualifies as equity capital, even if it had qualified previously;
- D. the agreement has no provision for acceleration of its maturity date, as provided in sections 1.17(h) (2) (ix) (A) or 1.17(h) (2) (x) (A) or (B);
- E. the agreement has no provisions for special prepayment under section 1.17(h) (2) (vii) (B); and
- F. the funds are in fact maintained as equity capital pursuant to the provision of regulation 1.17(e).

See the next page for Debt-Equity Ratio calculation.

Debt-Equity Ratio

An IB's equity capital must be no less than 30% of its required debt-equity total. An IB can determine whether its debt-equity ratio is above or below 30% by making the following calculation:

	<u>1-FR-IB</u> <u>Item No.</u>	
a. Total ownership equity	2570	\$ _____
b. Qualifying subordinated debt	4635	_____
c. Equity capital (a. + b.)		\$=====
d. Total satisfactory subordinated debt	2260	\$ _____
e. Excess net capital	3610	_____
f. Required debt-equity total (a. + d. - e.)		\$=====
g. Debt to equity ratio (c. divided by f.)		_____ %

An IB can determine by what amount its equity capital is deficient by making the following calculation:

a. Total satisfactory subordinated debt	2260	\$ _____
+ b. Total ownership equity	2570	_____
= c. Debt-equity total		\$ _____
- d. Excess net capital	3610	( _____ )
= e. Required debt equity		\$=====
f. 30% x amount on line e.		\$=====
g. Total ownership equity	2570	\$ _____
+ h. Qualifying subordinated debt	4635	_____
= i. Total equity capital		\$=====
j. Excess equity capital (Deficiency) (i. - f.)		\$=====

An IB which has an equity capital deficiency should consult with its DSRO or the Commission concerning the remedial action to be taken. See regulation 1.17(e) (2).

FORM 1-FR-IB  
Instructions  
Applicants for Registration  
Page 10-5.

APPLICANTS FOR REGISTRATION

A person who files an application for registration as an IB and and who will not be succeeding to and continuing the business of another IB must file a Form 1-FR-IB with his application for registration. The applicant has two filing options:

1. the applicant can file a certified financial report with an "as of" date which is not more than 45 days prior to the date on which it is filed. The certified report need not be on Form 1-FR-IB. However, if it is not, it must be accompanied by a Statement of the Computation of the Minimum Capital Requirements which is found in Form 1-FR-IB. A reconciliation between the latter statement and the certified financial report must be included.
2. the applicant can file a certified financial report which is more than 45 days old, but not older than one year at the date of filing. This certified report must be accompanied by an unaudited Form 1-FR-IB which is not more than 45 days old at the time of filing.

Each applicant for registration as an IB must include with its application and initial financial report, a written narrative statement which: (a) describes the source of its current assets, and (b) represents that its capital has been contributed for the purpose of operating as an IB and that it will continue to be used for such purpose. This statement must be signed by the same person who signs the Form 1-FR-IB attestation. Each Form 1-FR-IB filed by an applicant must include each of the statements found in the Form 1-FR-IB. The Form 1-FR-IB, any other financial statement statements, and the supplemental statement must be filed with National Futures Association and the Commission's regional office nearest the applicant's headquarters office.

If the applicant carries subordinated debt on its books, it must also file with the application and financial report a signed copy of each subordinated loan agreement (and secured demand note, if applicable) and a narrative statement which sets forth the name and address of the lender, the business relationship of the lender to the applicant, and whether the applicant carried any funds or securities for the lender at or about the time the proposed agreement was filed.

Applicant Succeeding to the Business of Another IB

An applicant which will be succeeding to and continuing the business of another IB is not required to file a financial report prior to its registration being approved, unless the Commission or a

self-regulatory organization requires the applicant to do so. The application must be accompanied by the required statement concerning the source and continued use of capital.

Once the successor IB is registered, it must file a Form 1-FR-IB as of the first month-end following the date on which its registration was granted. That financial report must be filed with the NFA, the Commission, and the IB's DSRO, if any, not more than 45 days after the date for which the report is made. That report must include each of the statements included in the Form 1-FR-IB.

#### Example

XYZ, an applicant for IB registration, will be taking over all of the customer commodity accounts of ABC, a registered IB.

6-1-88 - XYZ files its application for registration as an IB. No financial report need be filed unless specifically requested by the Commission or SRO. The supplemental source of capital statement must be filed with the application.

7-6-88 - XYZ is notified by National Futures Association that its registration will be effective 7-7-88.

9-14-88 - XYZ must file a 7-31-88 Form 1-FR-IB by no later than this date.

#### Calendar Quarter Option

An IB must file a Form 1-FR-IB for each fiscal quarter of each fiscal year, unless the registrant elects to file a Form 1-FR-IB for each calendar quarter of each calendar year (see "Election of Fiscal Year" below). With the exception of any certified Form 1-FR-IB required to be filed as of the close of an IB's fiscal year, each required quarterly Form 1-FR-IB must be filed no later than 45 days after the date for which the report is made.

#### Fiscal Year End

The Form 1-FR-IB required to be filed by a registered IB as of the close of the registrant's fiscal year must be certified by an independent public accountant in accordance with Section 1.16 of the regulations. A registrant who has elected to file a Form 1-FR-IB for each calendar quarter of each calendar year in lieu of each fiscal quarter of each fiscal year must, nonetheless, file a certified Form 1-FR-IB as of the close of its fiscal year. Each certified Form 1-FR-IB as of the close of a registered IB's fiscal year must be filed no later than 90 days after the close of the IB's fiscal year.

#### Election of Fiscal Year

An applicant for registration as an IB may elect to establish its fiscal year as other than the calendar year. An applicant may also elect to file its quarterly Form 1-FR-IB for each calendar quarter in lieu of each of its fiscal quarters. An applicant which does not

notify the NFA and the Commission of its election of a fiscal year other than the calendar year will be deemed to have elected the calendar year as its fiscal year.

To elect a fiscal year other than the calendar year, or to elect to file its quarterly Form 1-FR-IB for each calendar quarter in lieu of each of its fiscal quarters, the applicant must notify the NFA, in writing, of its election. The applicant must give such written notification concurrently with its Form 1-FR-IB filed with its application for registration. A copy of the written election notice must also be filed with the regional office of the Commission nearest the principal place of business of the applicant.

A registered IB must continue to use the fiscal year it has elected until the Commission approves the registrant's request for a change in fiscal year, and the IB gives written notice of the approval of such change to its designated self-regulatory organization. If the IB's DSRO has established rules approved by the Commission which (1) allow the DSRO to review, and approve or disapprove, changes in an IB's fiscal year, and (2) provide for the DSRO notifying the Commission of requests for changes and actions taken, then the IB need file its request for a change in fiscal year only with its DSRO.



FORM 1-FR-IB

Instructions

Reporting When Capital is Below Minimum Required Level

Page 11-4.

REPORTING REQUIREMENTS WHEN AN IB'S ADJUSTED NET CAPITAL IS BELOW THE  
MINIMUM REQUIREMENTS (UNDERCAPITALIZATION)

Each IB who knows, or should have known, that its adjusted net capital at any time is less than the minimum net capital required by Section 1.17 of the Regulations, or the capital rule of any self-regulatory organization of which the IB is a member, must give telegraphic notice of its undercapitalization to the principal office of the Commission in Washington, D.C., to the appropriate regional office of the Commission (see "Where to File" on page 1-3), to its DSRO, if any, to the NFA, if the firm is an applicant for registration, and to the SEC, if such IB is a securities broker/dealer. Such notice must be given within 24 hours after the IB knew, or should have known, of its undercapitalization.

Within 24 hours after giving notice of its undercapitalization, an IB must file with the same organizations to which it sent telegraphic notice the following statements as of the date of its undercapitalization:

- (1) a Statement of Financial Condition; and
- (2) a Statement of the Computation of the Minimum Capital Requirements Pursuant to Section 1.17 of the Regulations;

## FREEDOM OF INFORMATION ACT

Each Form 1-FR-IB, FOCUS Report (Parts II or IIA), and other financial reports filed with the Commission will be treated as public records. A person may obtain copies of such public records upon written request to the Commission's FOI, Privacy and Sunshine Acts compliance staff in Washington, D.C.

If, however, a registrant or applicant follows the procedures set forth in section 1.10(g) of the regulations for separate binding of certain portions of its Form 1-FR-IB or other financial report, only such separately bound portions will be made available to the public. The separately bound public portion of the financial report must include: (1) the statement of financial condition; and (2) the statement of the computation of the minimum capital requirements or other computation of net capital. An independent accountant's opinion is considered a public record. If the public statements of the financial report, described above, are bound separately from the other financial statements, schedules, footnotes and informative disclosures contained in the financial report, such other statements, schedules, footnotes and disclosures will be treated as nonpublic for purposes of the Freedom of Information Act, the Government in the Sunshine Act, and sections 145 and 147 of the regulations.

Under the provisions of the Freedom of Information Act (5 U.S.C. 552), the Commission may disclose to third parties portions of the "nonpublic" information in the report under the following circumstances: (1) in connection with matters in litigation; (2) in connection with Commission investigations; (3) where the information is furnished to regulatory, self-regulatory and law enforcement agencies to assist them in meeting responsibilities assigned to them by law; (4) where disclosure is required under the Freedom of Information Act; or (5) in other circumstances in which withholding of such information appears unwarranted.

If the applicant or registrant files a petition for confidential treatment of this nonpublic information, Section 145.9 of the Commission's regulations affords the applicant or registrant with the right to notice and a right to appeal any Commission staff decision to disclose this information pursuant to a request for information under the Freedom of Information Act. In addition, if the applicant or registrant believes that the placing of any other information submitted on or with a Form 1-FR-IB or other financial reports in the Commission's public files would constitute an unwarranted invasion of the applicant's or registrant's personal privacy or would reveal sensitive business information, the registrant or applicant may petition the Commission to treat such other information as nonpublic pursuant to Section 145.9 in response to requests under the Freedom of Information Act. It should be noted the Commission has consistently upheld denial of petitions on generally public portions of the Form 1-

FR- IB (Statement of Financial Condition and the Statement of the Computation of the Minimum Capital Requirements).

How to Obtain Copies of Financial Reports

A person may request copies of financial reports IBs have filed with the Commission. Requests for copies of such reports must be made in writing to:

Assistant Secretary for FOI  
Privacy and Sunshine Acts Compliance  
Office of the Secretariat  
Commodity Futures Trading Commission  
2033 K Street, NW  
Washington, D.C. 20581

All requests for copies of financial reports must be clearly marked "Freedom of Information Act Request". Each request also must describe the records sought with sufficient specificity to permit locating the records among the records maintained by the Commission.

Each request for copies of records must indicate the requester's agreement to pay all fees associated with the processing of the request (in accordance with the rates set forth in Appendix B to section 145 of the regulations) or the requester's intention to limit the fees incurred to a stated amount. If the requester states a fee limitation, no work will be done that will result in fees beyond the stated amount.

Appendix A

Charges - Repurchase and Reverse-Repurchase Agreements

Page A-3.

CHARGES FOR REPURCHASE AND REVERSE-REPURCHASE AGREEMENTS

This appendix is an excerpt from the SEC rule relating to net capital treatment of reverse repurchase (asset) and repurchase (liability) agreements, and the charges to be taken against such amounts. See 17 CFR 240.15c3-1(c)(2)(iv)(F). The charges specified herein are to be shown on page 4, lines 7.A and 7.B., of the Form 1-FR-IB. While the rule refers to brokers and dealers, the charges are applicable to IBs' positions also.

[DEFINITIONS]

(F) (1) For purposes of this paragraph:

(i) The term "reverse repurchase agreement deficit" shall mean the difference between the contract price for resale of the securities under a reverse repurchase agreement and the market value of those securities (if less than the contract price).

(ii) The term "repurchase agreement deficit" shall mean the difference between the market value of securities subject to the repurchase agreement and the contract price for repurchase of the securities (if less than the market value of the securities).

(iii) As used in paragraph (c)(2)(iv)(F)(1) of this section, the term "contract price" shall include accrued interest.

(iv) Reverse repurchase agreement deficits and the repurchase agreement deficits where the counterparty is the Federal Reserve Bank of New York shall be disregarded.

[CHARGE FOR REVERSE REPURCHASE AGREEMENTS]

(2)(i) In the case of a reverse repurchase agreement, the deduction shall be equal to the reverse repurchase agreement deficit.

(ii) In determining the required deductions under paragraph (c)(2)(iv)(F)(2)(i) of this section, the broker or dealer may reduce the reverse repurchase agreement deficit by:

(A) Any margin or other deposits held by the broker or dealer on account of the reverse repurchase agreement;

(B) Any excess market value of the securities over the contract price for resale of those securities under any other reverse repurchase agreement with the same party;

(C) The difference between the contract price for resale and the market value of securities subject to repurchase agreements with the same party (if the market value of those securities is less than the contract price); and,

(D) Calls for margin, marks to the market, or other required deposits which are outstanding one business day or less.

[CHARGE FOR REPURCHASE AGREEMENTS]

(3) (i) In the case of repurchase agreements, the deduction shall be:

(A) The excess of the repurchase agreement deficit over 5 percent of the contract price for resale of United States Treasury Bills, Notes and Bonds, 10 percent of the contract price for the resale of securities issued or guaranteed as to principal or interest by an agency of the United States or mortgage related securities as defined in section 3(a) (41) of the Act and 20 percent of the contract price for the resale of other securities and;

(B) The excess of the aggregate repurchase agreement deficits with any one party over 25 percent of the broker or dealer's net capital before the application of paragraphs (c) (2) (vi) or (f) (3) of this section (less any deduction taken under paragraph (c) (2) (iv) (F) (3) (i) (A) of this section or, if greater;

(C) The excess of the aggregate repurchase agreement deficits over 300 percent of the broker or dealer's net capital before the application of paragraphs (c) (2) (vi) or (f) (3) of this section.

(ii) In determining the required deduction under paragraph (c) (2) (iv) (F) (3) (i) of this section, the broker or dealer may reduce a repurchase agreement deficit by:

(A) Any margin or other deposits held by the broker or dealer on account of a reverse repurchase agreement with the same party to the extent not otherwise used to reduce a reverse repurchase deficit;

(B) The difference between the contract price and the market value of securities subject to other repurchase agreements with the same party (if the market value of those securities is less than the contract price) not otherwise used to reduce a reverse repurchase agreement deficit; and

(C) Calls for margin, marks to the market, or other required deposits which are outstanding one business day or less to the extent not otherwise used to reduce a reverse repurchase agreement deficit.

FORM 1-FR-IB  
Instructions

Appendix B  
Charges for Securities Positions  
Page B-3.

CHARGES FOR SECURITIES POSITIONS

This appendix is an excerpt from the SEC rule relating to charges against net capital for securities positions, non-marketable securities, and open contractual commitments. See 17 CFR 240.15c3-1(c)(2)(vi), (vii) and (viii). The charges specified herein are to be shown on page 4, lines 6.A through 6.F., of the Form 1-FR-IB. While the rule refers to brokers and dealers, the charges are applicable to IBs' positions also.

U.S. Government Securities

(A) (1) In the case of a security issued or guaranteed as to principal or interest by the United States or any agency thereof, the applicable percentages of the market value of the net long or short position in each of the categories specified below are:

Category 1

- (i) Less than 3 months to maturity - 0%.
- (ii) 3 months but less than 6 months to maturity - 1/2 of 1%.
- (iii) 6 months but less than 9 months to maturity - 3/4 of 1%.
- (iv) 9 months but less than 12 months to maturity - 1%.

Category 2

- (i) 1 year but less than 2 years to maturity - 1-1/2%.
- (ii) 2 years but less than 3 years to maturity - 2%.

Category 3

- (i) 3 years but less than 5 years to maturity - 3%.
- (ii) 5 years but less than 10 years to maturity - 4%.

Category 4

- (i) 10 years but less than 15 years to maturity - 4 1/2%.

- (ii) 15 years but less than 20 years to maturity - 5%.
- (iii) 20 years but less than 25 years to maturity - 5 1/2%.
- (iv) 25 years or more to maturity - 6%.

Brokers or dealers shall compute a deduction for each category above as follows: Compute the deductions for the net long or short positions in each subcategory above. The deduction for the category shall be the net of the aggregate deductions on the long positions and the aggregate deductions on short positions in each category plus 50% of the lesser of the aggregate deductions on the long or short positions.

(2) A broker or dealer may elect to deduct, in lieu of the computation required under paragraph (c) (2) (vi) (A) (1) of this section, the applicable percentages of the market value of the net long or short positions in each of the subcategories specified in paragraph (c) (2) (vi) (A) (1) of this section.

(3) In computing deductions under paragraph (c) (2) (vi) (A) (1) of this section, a broker or dealer may elect to exclude the market value of a long or short security from one category and a security from another category, Provided, That:

(i) Such securities have maturity dates:

(A) Between 9 months and 15 months and within 3 months of one another.

(B) Between 2 years and 4 years and within 1 year of one another;  
or

(C) Between 8 years and 12 years and within 2 years of one another.

(ii) The net market value of the two excluded securities shall remain in the category of the security with the higher market value.

(4) In computing deductions under paragraph (c) (2) (vi) (A) (1) of this section, a broker or dealer may include in the categories specified in paragraph (c) (2) (vi) (A) (1) of this section, long or short positions in securities issued by the United States or any agency thereof that are deliverable against long or short positions in futures contracts relating to Government securities, traded on a recognized contract market approved by the Commodity Futures Trading Commission, which are held in the proprietary or other accounts of the broker or dealer. The value of the long or short positions included in the categories shall be determined by the contract value of the futures contract held in the account. The provisions of Appendix B to Rule 15c3-1 (17 CFR240.15c3-1b) will in any event apply to the positions in futures contracts.

(5) In the case of a Government securities dealer which reports to the Federal Reserve System, which transacts business directly with the Federal Reserve System, and which maintains at all times a minimum net capital of at least \$50,000,000, before application of the deductions provided for in paragraph (c) (2) (vi) or (f) (3) of this

section, the deduction for a security issued or guaranteed as to principal or interest by the United States or any agency thereof shall be 75% of the deduction otherwise computed under subparagraph (c) (2) (vi) (A).

### Municipals

(B) (1) In the case of any municipal security which has a scheduled maturity at date of issue of 731 days or less and which is issued at par value and pays interest at maturity, or which is issued at a discount, and which is not traded flat or in default as to principal or interest, the applicable percentages of the market value on the greater of the long or short position in each of the categories specified below are:

- (i) Less than 30 days to maturity - 0%.
- (ii) 30 days but less than 91 days to maturity - 1/8 of 1%.
- (iii) 91 days but less than 181 days to maturity - 1/4 of 1%.
- (iv) 181 days but less than 271 days to maturity - 3/8 of 1%.
- (v) 271 days but less than 366 days to maturity - 1/2 of 1%.
- (vi) 366 days but less than 456 days to maturity - 3/4 of 1%.
- (vii) 456 days but less than 732 days to maturity - 1%.

(2) In the case of any municipal security, other than those specified in paragraph (c) (2) (vi) (B) (1), which is not traded flat or in default as to principal or interest, the applicable percentages of the market value of the greater of the long or short position in each of the categories specified below are:

- (i) Less than 1 year to maturity - 1%.
- (ii) 1 year but less 2 years to maturity - 2%.
- (iii) 2 years but less than 3-1/2 years to maturity - 3%.
- (iv) 3-1/2 years but less than 5 years to maturity - 4%.
- (v) 5 years but less than 7 years to maturity - 5%.
- (vi) 7 years but less than 10 years to maturity - 5 1/2%.
- (vii) 10 years but less than 15 years to maturity - 6%.
- (viii) 15 years but less than 20 years to maturity - 6 1/2%.
- (ix) 20 years or more to maturity - 7%.



### Canadian Debt Obligations

(C) In the case of any security issued or unconditionally guaranteed as to principal and interest by the Government of Canada, the percentages of market value to be deducted shall be the same as in (A) of this section.

### Certain Municipal Bond Trusts and Liquid Asset Funds

(D) (1) In the case of redeemable securities of an investment company registered under the Investment Company Act of 1940, which assets consist of cash or money market instruments and which is generally known as a "money market fund," the deduction shall be 2% of the market value of the greater of the long or short position.

(2) In the case of redeemable securities of an investment company registered under the Investment Company Act of 1940, which assets are in the form of cash or securities or money market instruments of any maturity which are described in paragraph (c) (2) (vi) (A) through (C) or (E) of this section, the deduction shall be 7% of the market value of the greater of the long or short positions.

(3) In the case of redeemable securities of an investment company registered under the Investment Company Act of 1940, which assets are in the form of cash or securities or money market instruments which are described in paragraphs (c) (2) (vi) (A) through (C) or (E) and (F) of this section, the deduction shall be 9% of the market value of the long or short position.

### Commercial Paper, Bankers Acceptances and Certificates of Deposit

(E) In the case of any short term promissory note or evidence of indebtedness which has a fixed rate of interest or is sold at a discount, and which has a maturity date at date of issuance not exceeding nine months exclusive of days of grace, or any renewal thereof, the maturity of which is likewise limited and is rated in one of the three highest categories by at least two of the nationally recognized statistical rating organizations (provided, that effective January 1, 1977, and until September 1, 1977, this paragraph shall be deemed to require only one such rating), or in the case of any negotiable certificates of deposit or bankers acceptance or similar type of instrument issued or guaranteed by any bank as defined in Section 3(a) (6) of the Securities Exchange Act of 1934, the applicable percentage of the market value of the greater of the long or short position in each of the categories specified below are:

- (1) less than 30 days to maturity - 0 percent.
- (2) 30 days but less than 91 days to maturity - 1/8 of 1 percent.
- (3) 91 days but less than 181 days to maturity - 1/4 of 1 percent.

- (4) 181 days but less than 271 days to maturity - 3/8 of 1 percent.
- (5) 271 days but less than 1 year to maturity - 1/2 of 1 percent; and
- (6) with respect to any negotiable certificate of deposit or bankers acceptance or similar type of instrument issued or guaranteed by any bank, as defined above, having 1 year or more to maturity, the deduction shall be on the greater of the long or short position and shall be the same percentage as that prescribed in paragraph (c) (2) (vi) (A) above.

#### Nonconvertible Debt Securities

(F) (1) In the case of nonconvertible debt securities having a fixed interest rate and fixed maturity date and which are not traded flat or in default as to principal or interest and which are rated in one of the four highest rating categories by at least two of the nationally recognized statistical rating organizations, the applicable percentages of the market value of the greater of the long or short position in each of the categories specified below are:

- (i) Less than 1 year to maturity - 2%
- (ii) 1 year but less than 2 years to maturity - 3%
- (iii) 2 years but less than 3 years to maturity - 5%
- (iv) 3 years but less than 5 years to maturity - 6%
- (v) 5 years but less than 10 years to maturity - 7%
- (vi) 10 years but less than 15 years to maturity - 7 1/2%
- (vii) 15 years but less than 20 years to maturity - 8%
- (viii) 20 years but less than 25 years to maturity - 8 1/2%
- (ix) 25 years or more to maturity - 9%

(2) A broker or dealer may elect to exclude from the above categories long or short positions that are hedged with short or long positions in securities issued by the United States or any agency thereof or nonconvertible debt securities having a fixed interest rate and a fixed maturity date and which are not traded flat or in default as to principal or interest and which are rated in one of the four highest rating categories by at least two of the nationally recognized statistical rating organizations if such securities have maturity dates;

- (i) Less than five years and within 6 months of each other;

(ii) Between 5 years and 10 years and within 9 months of each other;

(iii) Between 10 years and 15 years and within 2 years of each other; or

(iv) 15 years or more and within 10 years of each other.

The broker-dealer shall deduct the amounts specified in paragraphs (c) (2) (vi) (F) (3) and (4) of this section.

(3) With respect to those positions described in paragraph (c) (2) (vi) (F) (2) of this section that include a long or short position in securities issued by the United States or any agency thereof, the broker or dealer shall exclude the hedging short or long United States or agency securities position from the applicable haircut category under paragraph (c) (2) (vi) (A) of this section. The broker or dealer shall deduct the percentage of the market value of the hedged long or short position in nonconvertible debt securities as specified in each of the categories below:

(i) Less than 5 years to maturity - 1 1/2%

(ii) 5 years but less than 10 years to maturity - 2 1/2%

(iii) 10 years but less than 15 years to maturity - 2 3/4%

(iv) 15 years or more to maturity - 3%

(4) With respect to those positions described in paragraph (c) (2) (vi) (F) (2) that include offsetting long and short positions in nonconvertible debt securities, the broker or dealer shall deduct a percentage of the market value of the hedged long or short position in nonconvertible debt securities as specified in each of the categories below:

(i) Less than 5 years to maturity - 1 3/4%

(ii) 5 years but less than 10 years to maturity - 3%

(iii) 10 years but less than 15 years to maturity - 3 1/4%

(iv) 15 years or more to maturity - 3 1/2%

(5) In computing deductions under paragraph (c) (2) (vi) (F) (3) of this section, a broker or dealer may include in the categories specified in paragraph (c) (2) (vi) (F) (3) of this section, long or short positions in securities issued by the United States or any agency thereof that are deliverable against long or short positions in futures contracts relating to Government securities, traded on a recognized contract market approved by the Commodity Futures Trading Commission, which are held in the proprietary or other accounts of the broker or dealer. The value of the long or short positions included in the categories shall be determined by the contract value of the futures contract held in the account.

The provisions of Appendix B to Rule 15c3-1 (17 CFR 240.15c3-1b) will in any event apply to the positions in futures contracts.

#### Convertible Debt Securities

(G) In the case of a debt security not in default which has a fixed rate of interest and a fixed maturity date and which is convertible into an equity security, the deductions shall be as follows: If the market value is 100 percent or more of the principal amount, the deduction shall be determined as specified in paragraph (c) (2) (vi) (J) of this section; if the market value is less than the principal amount, the deduction shall be determined as specified in paragraph (F) of this section; if such securities are rated as required of paragraph (F) of this section.

#### Cumulative, Nonconvertible, Preferred Stock

(H) In the case of cumulative, nonconvertible preferred stock ranking prior to all other classes of stock of the same issuer, which is rated in one of the four highest categories by at least two of the nationally recognized statistical rating organizations and which are not in arrears as to dividends, the deduction shall be 10% of the market value of the greater of the long or short position.

#### Risk Arbitrage Positions

(I) In the case of each risk arbitrage transaction, the deduction shall be 30 percent (or such other percentage as required by this subdivision) on the long or equivalent short position, whichever has the greater market value. For the purposes of this paragraph (I), a "risk arbitrage transaction" shall mean the sale (either when issued, when distributed or short) of securities involved in a pending merger, consolidation, transfer of assets, exchange offer, recapitalization or other similar transaction which has been publicly announced and has not been terminated, in connection with a previous or approximately simultaneous offsetting purchase of other securities which upon consummation of the transaction will result in the equivalent of the securities sold.

#### All Other Securities

(J) In the case of all securities or evidence of indebtedness, except those described in Appendix (A), 17 CFR 240.15c3-1a and where appropriate, paragraph (f) of this section, which are not included in any of the percentage categories enumerated in paragraph (c) (2) (vi) (A) through (I) of this section or (K) (ii) of this section, the deduction shall be 30 percent of the market value of the greater of the long or short positions and to the extent the market value of the lesser of the long or short position exceeds 25 percent of the market value of the greater of the long or short positions, there shall be a

percentage deduction on such excess equal to 15 percent of the market value of such excess. Provided, that no deduction need be made in the case of (1) a security which is convertible into or exchangeable for other securities within a period of 90 days, subject to no conditions other than the payment of money, and the other securities into which such security is convertible or for which it is exchangeable, are short in the accounts of such broker or dealer or (2) a security which has been called for redemption and which is redeemable within 90 days.

#### Securities with a Limited Market

(K) In the case of securities (other than exempted securities, nonconvertible debt securities, and cumulative nonconvertible preferred stock) which are not: (1) traded on a national securities exchange; (2) designated as "OTC Margin Stock" pursuant to Regulation T under the Securities Exchange Act of 1934; (3) quoted on "NASDAQ"; or (4) redeemable shares of investment companies registered under the Investment Company Act of 1940, the deduction shall be as follows:

(i) in the case where there are regular quotations in an inter-dealer quotations system for the securities by three or more independent market-makers (exclusive of the computing broker or dealer) and where each such quotation represents a bona fide offer to brokers or dealers to both buy and sell in reasonable quantities at stated prices, or where a ready market as defined in paragraph (c) (11) (ii) is deemed to exist, the deduction shall be determined in accordance with paragraph (c) (2) (vi) (J) of this section;

(ii) in the case where there are regular quotations in an inter-dealer quotations system for the securities by only one or two independent market-makers (exclusive of the computing broker or dealer) and where each such quotation represents a bona fide offer to brokers or dealers both to buy and sell in reasonable quantities, at stated prices, the deduction on both the long and short position shall be 40 percent.

(L) Where a broker or dealer demonstrates that there is sufficient liquidity for any securities long or short in the proprietary or other accounts of the broker or dealer which are subject to a deduction required by paragraph (c) (2) (vi) (K) of this section, such deduction, upon a proper showing to the Examining Authority for the broker or dealer, may be appropriately decreased, but in no case shall such deduction be less than that prescribed in paragraph (c) (2) (vi) (J) of this section.

#### Undue Concentration

(M) In the case of money market instruments or securities of a single class or series of an issuer, including any option written, endorsed or held to purchase or sell securities of such a single class or series of an issuer (other than "exempted securities" and redeemable securities of an investment company registered pursuant to the Investment Company Act of 1940), which are long or short in the

proprietary or other accounts of a broker or dealer, including securities which are collateral to secured demand notes defined in Appendix (D) (17 CFR 240.15c3-1d), for more than 11 business days and which have a market value of more than 10 percent of the "net capital" of a broker or dealer before the application of subparagraph (c) (2) (vi) of this section or Appendix (A) (17 CFR 240.15c3-1a), there shall be an additional deduction from net worth and/or the Collateral Value for securities collateralizing a secured demand note defined in Appendix (D) (17 CFR 240.15c3-1d), equal to 50 percent of the percentage deduction otherwise provided by this paragraph (c) (2) (vi) of this section or Appendix (A) (17 CFR 240.15c3-1a), on that portion of the securities position in excess of 10% of the "net capital" of the broker or dealer before the application of paragraph (c) (2) (vi) of this section and Appendix (A) (17 CFR 240.15c3- 1a).

This provision shall apply notwithstanding any long or short position exemption provided for in paragraph (c) (2) (vi) (I) or (J) of this section (except for long or short position exemptions arising out of the first proviso to paragraph (c) (2) (vi) (J) of this section and the deduction on any such exempted position shall be 15% of that portion of the securities position in excess of 10% of net capital before the application of paragraph (c) (2) (vi) of this section and Appendix (A) (17 CFR 240.15c31a). Provided, That such additional deduction shall be applied in the case of equity securities only on the market value in excess of \$10,000 or the market value of 500 shares, whichever is greater, or \$25,000 in the case of a debt security. Provided, further, That any specialist which is subject to a deduction required by this paragraph (c) (2) (vi) (M), respecting his specialty stock, who can demonstrate to the satisfaction of the Examining Authority for such broker or dealer that there is sufficient liquidity for such specialists' specialty stock and that such deduction need not be applied in the public interest for the protection of investors may upon a proper showing to such Examining Authority have such undue concentration deduction appropriately decreased, but in no case shall the deduction prescribed in paragraph (c) (2) (VI) (J) of this section be reduced. Each such Examining Authority shall make and preserve for a period of not less than 3 years a record of each application granted pursuant to this subdivision, which shall contain a summary of the justification for the granting of the application. Provided further, This provision will be applied to an issue of municipal securities having the same security provisions, date of issue, interest rate, day, month and year of maturity only if such securities have a market value in excess of \$500,000 in bonds (\$5,000,000 in notes) or 10% of tentative net capital, whichever is greater, and are held in position longer than twenty (20) business days from the date the securities are received by the syndicate manager from the issuer.

#### Non-Marketable Securities

(vii) Deducting 100 percent of the carrying value in the case of securities or evidence of indebtedness in the proprietary or other accounts of the broker or dealer, for which there is no ready market, as defined in paragraph (c) (11) of this section, and securities, in

the proprietary or other accounts of the broker or dealer, which cannot be publicly offered or sold because of statutory, regulatory or contractual arrangements or other restrictions.

#### Open Contractual Commitments

(viii) Deducting, in the case of a broker or dealer who has open contractual commitments (other than those option positions subject to Appendix (A) (17 CFR 240.15c3-1a)) the respective deductions as specified in paragraph (c) (2) (vi) of this section or Appendix (B) (17 CFR 240.15c3-1b) from the value (which shall be the market value whenever there is a market) of each net long and each net short position contemplated by any open contractual commitment in the proprietary or other accounts of the broker or dealer. In the case of a broker or dealer electing to operate pursuant to paragraph (f) of this section, the percentage deduction for contractual commitments in those securities which are treated in subdivision (f) (3) (ii) of this section shall be 30%. Provided, that the deduction with respect to any single commitment shall be reduced by the unrealized profit, in an amount not greater than the deduction provided for by this section (or increased by the unrealized loss), in such commitment, and that in no event shall an unrealized profit on any closed transactions operate to increase net capital.

240.15c3-1a Options (Appendix A to 17 CFR 240.15c3-1).

(a) Certain Definitions. (1) The term "listed option" shall mean any option traded on a registered national securities exchange or facility of a registered national securities association.

(2) The term "unlisted option" shall mean any option not traded on a registered national securities exchange or facility of a registered national securities association.

(b) Certain Adjustments to Net Worth For Listed Options Before Computing the Deductions Specified in (c) Below. (1) The market value of short positions in listed options shall be added to net worth and the market value of any long positions in listed options, which relate to long or short securities positions or short positions in listed options, shall be deducted from net worth, and;

(2) The amount by which the market value of a short security position, which is related to a long listed call, exceeds the exercise value of such long call, or the amount by which the exercise value of a long listed put, which is related to a long security position, exceeds the market value of the long security, shall be added to net worth, and;

(3) The amount by which the market value of the underlying security would exceed the exercise value of the short listed call, or the amount by which the exercise value of a short listed put exceeds the market value of the underlying security, shall be deducted from net worth.

(c) Deductions From Net Worth for Uncovered Options and Securities Positions in Which the Broker or Dealer Has Offsetting Option Positions.

Every broker or dealer shall in computing net capital pursuant to 17 CFR 240.15c3-1 deduct from net worth the percentages of all securities positions or options in the proprietary or other accounts of the broker or dealer specified below. However, where computing the deduction required for a security position as if the security position had no related option position and positions in options as if uncovered would result in a lesser deduction from net worth, the broker or dealer may compute such deductions separately.

(1) Uncovered Calls. Where a broker or dealer is short a call, deducting, after the adjustment provided for in paragraph (b) of this Appendix (A), 30 percent (or such other percentage required by paragraphs (A) through (K) of paragraph (c) (2) (vi) of 17 CFR 240.15c3-1) of the current market value of the security underlying such option reduced by any excess of the exercise value of the call over the current market value of the underlying security. Provided, That in no event shall the deduction provided by this subparagraph be less than \$250 for each option contract for 100 shares.

(2) Uncovered Puts. Where a broker or dealer is short a put, deducting, after the adjustment provided for in paragraph (b) of this Appendix (A), 30 percent (or such other percentage required by paragraphs (A) through (K) of paragraph (c) (2) (vi) of 17 CFR 240.15c3-1) of the current market value of the security underlying the option reduced by any excess of the market value of the underlying security over the exercise value of the put. Provided, That in no event shall the deduction provided by this subparagraph be less than \$250 for each option contract for \$100 shares.

(3) Covered Calls. Where a broker or dealer is short a call and long equivalent units of the underlying security, deducting, after the adjustments provided for in paragraph (b) of this Appendix (A), 30 percent (or such other percentage required by paragraphs (A) through (K) of paragraph (c) (2) (vi) of 17 CFR 240.15c3-1 or 15 percent where a broker or dealer operates pursuant to paragraph (f) of 17 CFR 240.15c3-1) of the current market value of the underlying security reduced by any excess of the current market value of the underlying security over the exercise value of the call. Provided, That no such reduction shall have the effect of increasing net capital.

(4) Covered Puts. Where a broker or dealer is short a put and short equivalent units of the underlying security, deducting, after the adjustment provided for in paragraph (b) of this Appendix (A), 30 percent (or such other percentage required by paragraphs (A) through (K) of paragraph (c) (2) (vi) of 17 CFR 240.15c3-1) of the current market value of the underlying security reduced by any excess of the exercise value of the put over the market value of the underlying security. Provided, That no such reductions shall have the effect of increasing net capital.



(5) Conversion Accounts. Where a broker or dealer is long equivalent units of the underlying security, long an unlisted put written or endorsed by a broker or dealer and short an unlisted call in his proprietary or other accounts, deducting 10 percent (or 50 percent of such other percentage required by paragraphs (A) through (K) of paragraph (c) (2) (vi) of 17 CFR 240.15c3-1 or 5 percent where a broker or dealer operates pursuant to paragraph (f) of 17 CFR 240.15c3-1) of the market value of the underlying security.

(6) Where a broker or dealer is short equivalent units of the underlying security, long an unlisted call written or endorsed by a broker or dealer and short an unlisted put in his proprietary or other accounts, deducting 10 percent (or 50 percent of such other percentage required by paragraphs (A) through (K) of paragraph (c) (2) (vi) of 17 CFR 240.15c3-1) of the market value of the underlying security.

(7) Long Over-the-Counter Options. Where a broker or dealer is long an unlisted put or call endorsed or written by a broker or dealer, deducting 30 percent (or such other percentage required by paragraphs (A) through (K) of paragraph (c) (2) (vi) of 17 CFR 240.15c3-1 or 15 percent where a broker or dealer operates pursuant to paragraph (f) of 17 CFR 240.15c3-1) of the market value of the underlying security, not to exceed any value attributed to such option in paragraph (c) (2) (i) of 17 CFR 240.15c3-1.

(8) Listed Options. Where a broker or dealer is long listed options and there is no offsetting security position, deducting 50 percent of the market value of any net long positions in options in the same underlying security, with the same exercise price and the same expiration date. Where a broker or dealer has a net short position in an option in the same underlying security, with the same exercise price and the same expiration date and for which the broker or dealer does not have a related position in the underlying security or an option position otherwise provided for in this Appendix (A), the deduction shall be determined as provided in paragraph (c) (1) or (2) of this Appendix (A).

(9) Certain Security Positions with Offsetting Options. Where a broker or dealer is long a security for which he is also long a listed put (such broker or dealer may in addition be short a call), deducting, after the adjustments provided in paragraph (b) of this Appendix (A), 30 percent (15 percent in the case of a broker or dealer operating pursuant to paragraph (f) of 17 CFR 240.15c3-1) of the market value of the long security position not to exceed the amount by which the market value of equivalent units of the long security position exceeds the exercise value of the put. Provided, That if the exercise value of the put is equal to or exceeds the market value of equivalent units of the long security position, no percentage deduction shall be applied.

(10) Where a broker or dealer is short a security for which he is also long a listed call (such broker or dealer may in addition be short a put), deducting, after the adjustments provided in paragraph (b) of this Appendix (A), 30 percent of the market value of the short security position not to exceed the amount by which the exercise value

of the long call exceeds the market value of equivalent units of the short security position. Provided, That if the exercise value of the call is less than or equal to the market value of equivalent units of the short security position no percentage deduction shall be applied.

(11) Certain Spread Positions. Where a broker or dealer is short a listed call and is also long a listed call in the same class of option contracts and the long option expires on the same date as or subsequent to the short option, the deduction, after the adjustments required in paragraph (b) of this Appendix (A), shall be the amount by which the exercise value of the long call exceeds the exercise value of the short call. Provided, That if the exercise value of the long call is less than or equal to the exercise value of the short call, no deduction is required.

(12) Where a broker or dealer is short a listed put and is also long a listed put in the same class of option contracts and the long option expires on the same date as or subsequent to the short option, the deduction, after the adjustments required in paragraph (b) of this Appendix (A), shall be the amount by which the exercise value of the short put exceeds the exercise value of the long put. Provided, That if the exercise value of the long put is equal to or greater than the exercise value of the short put, no deduction is required.

(13) Certain Straddle Positions. Where a broker or dealer is long a listed call and is also long a listed put for the same underlying security, the deduction shall be the greater of (i) the deduction resulting from application of paragraph (c)(8) of this Appendix A to the long call; or (ii) the deduction resulting from application of the same paragraph to the long put.

(14) Where a broker or dealer is short a listed call and is also short a listed put for the same underlying security, the deduction, after application of the adjustments required by paragraph (a) of this Appendix A, shall be the greater of (i) the deduction resulting from the application of paragraph (c)(1) of the Appendix A to the short call, or (ii) the deduction resulting from the application of paragraph (c)(2) of this Appendix A to the short put.

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