UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

DIVISION OF
TRADING AND MARKETS

February 9, 2016

Act	Securities Exchange Act of 1934
Section	15
Rule	Rule 15c 3-1
Public Availability	Date of signature

William Wollman
Executive Vice President, Member Regulation
Financial Industry Regulatory Authority, Inc.
One World Financial Center
200 Liberty Street, 9th Floor
New York, NY 10281-1003

Re: Definition of "Ready Market" with regard to Foreign Equity Securities pursuant to Rule 15c3-1(c)(11)(i)

Dear Mr. Wollman:

In a letter from Grace Vogel dated November 6, 2012, on behalf of the Financial Industry Regulatory Authority, Inc. ("FINRA"),[1] Ms. Vogel requested assurance that the staff of the Division of Trading and Markets ("Division") would not recommend enforcement action to the Securities and Exchange Commission ("Commission") under Rule 15c3-1 of the Securities Exchange Act of 1934 ("Exchange Act"), if broker-dealers, under the conditions described therein, treat certain foreign equity securities as having a "ready market" under paragraph (c)(11)(i) of Rule 15c3-1 and subject to the haircuts under paragraph (c)(2)(vi)(J).[2] The FINRA Letter noted that this would expand the number of foreign securities eligible as foreign margin stock under the Board of Governors of the Federal Reserve System's ("Federal Reserve") Regulation T.[3]

In a letter dated November 28, 2012, the Division advised that it would not recommend enforcement action to the Commission if a broker-dealer were to treat an equity security of a foreign issuer as having a ready market under paragraph (c)(11)(i) of Rule 15c3-1 and subject to

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1 Hereinafter the "FINRA Letter."

2 17 CFR 240.15c3-1(c)(11)(i) and (c)(2)(vi)(J).

3 Federal Reserve Regulation T (12 CFR 220.2) defines a foreign margin stock as a "foreign security that is an equity security that: (1) Appears on the Board's periodically published List of Foreign Margin Stocks; or (2) is deemed to have a "ready market" under Commission Rule 15c3-1 (17 CFR 240.15c3-1) or a "no-action" position issued thereunder."

the haircuts under paragraph (c)(2)(vi)(J), subject to the satisfaction of certain conditions as set forth in the letter.[4]

In the intervening period, the Division has monitored the operation of the November 2012 Letter. During such time, the Division has learned that one of the conditions set forth in the November 2012 Letter warrants modification. More specifically, the November 2012 Letter requires that the median daily trading volume (calculated over the preceding 20 business day period) of the foreign equity security on the foreign securities exchange on which the security is traded is either at least 100,000 shares or $500,000. Footnote 5 states that shares purchased by the computing broker-dealer during the preceding 20 business day period are to be excluded when determining the median trading volume. Based upon representations the Division has received from broker-dealers utilizing the November 2012 Letter, the Division believes that footnote 5 is not necessary to ensuring the liquidity of foreign equity securities treated as having a "ready market" under the November 2012 Letter. At the same time, the Division has learned that footnote 5 creates operational burdens on the computing broker-dealers.

Accordingly, the Division is withdrawing the November 2012 Letter and issuing this letter in its place. The only change between this letter and the November 2012 Letter is modifying the text that appeared in footnote 5 of the November 2012 Letter to read as follows:

"Trading volume calculations must be based upon bona fide transactions."

As noted in the November 2012 Letter, paragraph (c)(2)(vii) of the Rule requires a broker-dealer to deduct 100% of the carrying value of securities it holds in its proprietary account for which there is no ready market, as defined in paragraph (c)(11), or which cannot be publicly offered or sold because of statutory, regulatory or contractual arrangements or other restrictions.[5] Paragraph (c)(11)(i) of the Rule states that the term "ready market" shall include "a market in which there exists 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."

Currently, under the Rule, broker-dealers may treat equity securities of a foreign issuer that are listed on the FTSE World Index as having a "ready market," and subject to the haircuts specified under paragraph (c)(2)(vi)(J) of the Rule.[6] Because the FTSE World Index is currently

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4 See letter to Grace B. Vogel, Executive Vice President, Member Regulation, FINRA, from Michael A. Macchiaroli, Associate Director, Division, Commission, dated November 28, 2012 (the "November 2012 Letter")(attached as Appendix A).

5 17 CFR 240.15c3-1(c)(2)(vii).

6 Letter from Michael A. Macchiaroli, Associate Director, Division of Market Regulation, Commission, to Dominic A. Carone, Chairman, Capital Committee, Securities Industry Association (Aug. 13, 1993) ("1993 Letter"). The staff notes that the terms and conditions of the1993 Letter with respect to foreign equity securities listed on the FTSE World Index will continue to apply following the issuance of this no-action

limited to approximately 2,300 securities, the FINRA Letter stated that FINRA member firms have expressed an interest in expanding the criteria for recognizing foreign equity securities as having a ready market under the Rule to include more than those that are listed on the FTSE World Index. As explained in , FINRA member firms contend that there are many more issuers of a substantial size for which there is a ready market within the meaning of the Rule.

Based on the foregoing, the Division will not recommend enforcement action to the Commission if a broker-dealer treats an equity security of a foreign issuer as having a ready market under Rule 15c3-1(c)(11) and subject to the haircuts under paragraph (c)(2)(vi)(J), if the following conditions are met:

1. The security is listed for trading on a foreign securities exchange located within a country that is recognized on the FTSE World Index, where the security has been trading on that exchange for at least the previous 90 days;

2. Daily quotations for both bid and ask or last sale prices for the security provided by the foreign securities exchange on which the security is traded are continuously available to broker-dealers in the United States, through an electronic quotation system;

3. The median daily trading volume (calculated over the preceding 20 business day period) of the foreign equity security on the foreign securities exchange on which the security is traded is either at least 100,000 shares or $500,000;[7] and

4. The aggregate unrestricted market capitalization in shares of such security exceeds $500 million over each of the preceding 10 business days.

Any foreign equity security that ceases to meet one or more of the eligibility requirements will continue to be considered to have a "ready market" for purposes of Rule 15c3-1(c)(11) for 5 business days from the date such foreign equity security ceases to meet the requirements. After the end of this 5 business day period, the security will be considered to have a "ready market" only if and when it again meets all of the eligibility requirements.

A broker-dealer may utilize the provisions of paragraph (c)(2)(vi)(J) of Rule 15c3-1 to calculate the haircuts for foreign equity securities that meet the conditions of this letter; however, a broker-dealer should perform this calculation independent of the broker-dealer's haircut calculation for other securities subject to the provisions of paragraph (c)(2)(vi)(J).[8]

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letter. *See also FINRA Interpretations of Financial and Operational Rules* -- Rule 15c3-1(c)(11)(i)/02 available at http://www.finra.org/Industry/Regulation/Guidance/FOR/index.htm.

7 Trading volume calculations must be based upon bona fide transactions.

8 A broker-dealer may combine foreign equity securities listed on the FTSE World Index under the conditions of the 1993 Letter and those foreign equity securities meeting the conditions of this no-action letter for purposes of calculating the haircuts specified under paragraph (c)(2)(vi)(J) of the Rule.

Broker-dealers that choose to utilize this relief would need to demonstrate, upon examination or inquiry, that any such foreign equity security that is used as collateral for a margin loan met all of the above criteria, and make and keep current, and maintain all relevant records in accordance with Rules 17a-3 and 17a-4.

The FINRA Letter notes that FINRA also expects that broker-dealers relying on this letter will maintain appropriate risk management systems to monitor for concentrations, volatility, and liquidity when extending credit secured by foreign securities. Broker-dealers could consider imposing higher "house" maintenance requirements as warranted. Measurements for computing such exposure should be reviewed at the individual account level, as well as, across all accounts held at the broker-dealer.

Finally, the Division notes that pursuant to the Rule, if markets can absorb only a limited number of shares of an equity security for which a ready market exists, the non-marketable portion in the proprietary or other accounts of a broker-dealer is subject to a 100% deduction to net capital and is treated as a non-allowable asset consistent with current interpretations.[9]

This is a staff position with respect to enforcement only and does not purport to state any legal conclusion on this matter. Any material change in circumstances may warrant a different conclusion and should be brought immediately to the Division's attention. Furthermore, this position may be withdrawn or modified if the staff determines that such action is necessary in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the securities law.

Sincerely,

Michael A. Macchiaroli
Associate Director

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9 *See* Letter from Michael A. Macchiaroli, Assistant Director, Division of Market Regulation, Commission, to Edward Kwalwasser, Senior Vice President, New York Stock Exchange, and Thomas R. Casella, Vice President, National Association of Securities Dealers (Oct. 5, 1987) ("1987 Letter"). In the 1987 Letter, the Commission issued relief to a broker-dealer if, when faced with a blockage in securities, it treats as readily marketable securities that portion of the block which equals the aggregate of the most recent four week, inter-dealer trading volume. The number of shares exceeding this amount should be considered non-marketable and subject to a 100% deduction from net capital and is treated as a non-allowable asset, unless the broker-dealer demonstrates to the satisfaction of its Designated Examining Authority that a ready market exists for these excess shares. The shares purchased by the computing broker-dealer during the most recent four-week period are to be excluded when determining trading volume. *See also* Rule 15c3-1(c)(2)(vii)/01 in FINRA's *Interpretations of Financial and Operational Rules.*