

December 3, 1975

Donald M. Feuerstein, Esq.
Salomon Brothers
One New York Plaza
New York, New York 10004

Re: Broker-Dealer Subcommittee
S.1231 and H.R.8064

Dear Don:

When we met to prepare a letter of comment concerning the Securities Investor Protection Act Amendments of 1975, you asked me about the meaning of the last sentence of §8(c)(3), which is on p. 33 of H.R. 8064. Similar language is now contained in §6(d) of the Securities Investor Protection Act of 1970.

In a memorandum of October 17, 1972 to All Trustees of SIPC Cases in Liquidation from the then Chairman of the Securities Investors Protection Corporation, it was explained that in order for a broker-dealer to be acting on behalf of a customer, the broker-dealer need not limit his capacity to agency transactions. The memorandum amplifies this as follows:

"Under certain conditions principal transaction may qualify for completion.

For example: 1. The other broker-dealer passes a customer through his trading account and does not have a position in the security before receipt of the customer's order or after completion of the customer's order.

2. The other broker-dealer accumulates securities in his trading account for the purpose of satisfying a customer's order for a specified number of shares.

However, in no case shall a principal transaction by the other broker-dealer with his customer be completed by the trustee with SIPC funds where the other broker-dealer is a market maker in the security involved.

It shall be the responsibility of the other broker-dealer to establish and document that he was acting on behalf of a customer in a form or manner that is satisfactory to the trustee. The trustee is advised to scrutinize those transactions which do meet the requirements of paragraphs A and B, in order to be satisfied that they were made in the ordinary course of the debtor's business and were not effected for the purpose of creating a commitment in contemplation of a liquidation proceeding."

I trust the foregoing answers your questions. If not, feel free to call me.

Sincerely,

Roberta S. Karmel