DIVISION OF
MARKET REGULATION

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

February 7, 2006

Ms. Kris Dailey
Managing Director, Regulatory Development Services
New York Stock Exchange, Inc.
20 Broad Street
New York, NY 10005

Ms. Susan DeMando
Director, Financial Operations
NASD Regulation, Inc.
1735 K Street, NW
Washington, DC 20006-1500

Re: Short Option Value Charge

Dear Ms. Dailey and Ms. DeMando:

Certain firms have raised issues regarding the deduction known as the "short option value charge" required by subparagraph (a)(3)(x) of Appendix B to Rule 15c3-1 under the Securities Exchange Act of 1934 (the "Exchange Act")[1] for commodity options granted (sold) by certain customers. The short option value charge requires that a broker-dealer, when calculating net capital under Rule 15c3-1, deduct from its net worth four percent of the market value of commodity options granted (sold) by option customers on or subject to the rules of a contract market. These firms are concerned that the short option value charge does not reflect accurately the risk of the customer short option values to the firm.

In response to these concerns, the Division of Market Regulation (the "Division") will not recommend enforcement to the Securities and Exchange Commission (the "Commission") if a firm, when computing the short option value charge under subparagraph (a)(3)(x) of Appendix B to Rule 15c3-1, does not take a charge on short commodity options for accounts where:

1. The customer has aggregate open short option positions with the firm that are valued in excess of $25 million;

2. The firm stress tests each of these customer margin accounts and fully revalues the positions accounting for both movement in the underlying asset and implied volatility;

[1] 17 CFR 240.15c3-1b(a)(3)(x).

3. The firm retains the results of the calculations in paragraphs 2 above

4. The firm must establish and follow written risk management procedures detailing the calculation of required margin, the timing of margin calls, procedures followed when customers fail to meet margin calls, and the evaluation of the stress tests calculations.

This is a staff position with respect to enforcement only and does not purport to express any legal conclusions. This position is based solely on the foregoing description. Factual variations could warrant a different response, and any material change in the facts must be brought to the Division's attention. This position adds to and does not replace the previous guidance regarding the short option value charge. This position may be withdrawn or modified if such action is necessary for the protection of investors, in the public interest, or otherwise in furtherance of the securities laws.

Sincerely,

Michael A. Macchiaroli
Associate Director