Financial Reporting 6.00

6.01 Designation of FINOP

On May 21, 2001, the SEC approved amendments to *Rule 1022(b),* "Limited Principal - Financial and Operations" ("FINOP"), and *Rule 1022(c)* "Limited Principal - Introducing Broker/Dealer Financial and Operations" ("Introducing FINOP"). As a result, effective September 17, 2001, these changes will require every firm approved for membership in the NASD on or after September 17, 2001, that is also subject to the requirements of the SEC's net capital rule (Exchange Act Rule 15c3-1), to have at least one associated person registered as either a Series 27 FINOP or Series 28 Introducing FINOP, depending upon the firm's net capital requirement.

Broker/dealer member firms that were specifically exempted from the requirement to employ a Series 27 FINOP or Series 28 Introducing FINOP prior to September 17, 2001, will not be subject to these requirements. No firm will be permitted to seek an exemption from this requirement under *Rule 9610(a).* The amendments to *Rules 1022(b) and 1022(c)* also clarify their applicability to NASD members by making citations in them consistent with *Exchange Act Rule 15c3-1*. The changes to *Rules 1022(b) and 1022(c)* will not affect individuals who currently are grandfathered from the Series 27 or Series 28 examinations because these individuals are considered to possess the license for which they were grandfathered.

Series 27 Requirement

The Series 27 examination qualifies an individual to function as a limited principal responsible for matters involving a member's financial and operational management. A Series 27 principal may serve as a member's chief financial officer.

Amended *Rule 1022(b)* will require all firms that have a minimum $250,000 net capital requirement under *Exchange Act Rule 15c3-1(a)(1)(ii) or (a)(2)(i)* and municipal securities brokers' brokers that have a minimum $150,000 net capital requirement under *Exchange Act Rule 15c3-1(a)(8)* to have a registered Series 27 FINOP.

Series 28 Requirement

The Series 28 examination qualifies an individual to function as a limited principal responsible for matters involving an introducing member's financial and operational management. A Series 28 principal may serve as an introducing member's chief financial officer.

All other members not included in the above Series 27 requirements will be required under the amended *Rule 1022(c)* to have at least one associated person registered as a Series 28 Introducing FINOP.

Designated Financial and Operations Principal (FINOP)

Note: Please see the Firm's List of Registered and Supervisory Personnel for a detailed list of all current registered representatives, designated supervisors, independent contractors, and/or other affiliated persons.

6.02 Responsibilities of the FINOP

The designated Financial and Operations Principal (FINOP) with a Series 27 or Series 28 license will maintain the following responsibilities:

Preparation of Financial Statements

Monthly preparation of the following financial statements:

- Trial Balance;
- Balance Sheet;
- Income Statement;
- General Ledger;
- Reconciliations to Firm Bank Accounts; and
- Net Capital Computation.

Net Capital and Aggregate Indebtedness Calculation

The designated FINOP is responsible for the monthly completion of a Net Capital and Aggregate Indebtedness computation as prescribed in *SEC Rule 15c3-1*.

Net Capital, Recordkeeping and Financial Reporting Requirements in connection with Revenue Recognition Practices

Under SEA Rule 15c3-1, a firm's net worth must be computed in accordance with US GAAP. In computing net worth, US GAAP requires firms to recognize their revenue from contracts with customers in accordance with ASC 606, when applicable. Broadly, ASC 606 provides that when consideration is received by the firm before the related performance obligation under the contract has been satisfied, whether at a point in time or over time, the consideration is recognized as a liability, not as revenue. Thus, revenue recognition by a firm should occur when the related performance obligation has been satisfied, either at a point in time or over time, depending on the contract terms.

Recognizing non-refundable fees received from customers as revenue upon entering the contract and receiving payment, based solely upon a non-refundable clause in the contract, or recognition of non-refundable fees received throughout the term of a contract as revenue, without substantiating that the related performance obligation has been satisfied or has been satisfied over time, generally would not be sufficient substantiation of the analysis required by ASC 606 to determine the proper timing of revenue recognition. The foregoing practice would result in firms overstating their revenues and understating their non-allowable assets and liabilities, which in some cases, would result in net capital deficiencies or a material reduction in the firms' reported excess net capital.

To comply with ASC 606 in recognizing revenue from contracts with customers, firms should ensure that they are able to demonstrate, through a documented policy and analysis that is applied consistently, the basis for their revenue recognition practices, in accordance with the requirements of ASC 606. Specifically, firms should analyze each contract with their customers for the performance obligation(s) thereunder and the revenue associated with each such obligation, and document when and how such performance obligation(s) has been satisfied.

Further, firms should ensure that their annual reports are prepared in accordance with SEA Rule 17a-5 and include appropriate footnote disclosures required by ASC 606. Additionally, revenue reported on the FOCUS report required to be filed under SEA Rule 17a-5, as well as on the Supplemental Statement of Income required to be filed under FINRA Rule 4524, should be reported in accordance with ASC 606 and be consistent with the revenue recognition disclosures made in the firm's annual report. (Ref. Regulatory Notice 23-21; Published Date: December 22, 2023)

Net Capital, Recordkeeping and Financial Reporting Requirements in connection with Revenue Recognition Practices

Under SEA Rule 15c3-1, a firm's net worth must be computed in accordance with US GAAP. In computing net worth, US GAAP requires firms to recognize their revenue from contracts with customers in accordance with ASC 606, when applicable. Broadly, ASC 606 provides that when consideration is received by the firm before the related performance obligation under the contract has been satisfied, whether at a point in time or over time, the consideration is recognized as a liability, not as revenue. Thus, revenue recognition by a firm should occur when the related performance obligation has been satisfied, either at a point in time or over time, depending on the contract terms.

Recognizing non-refundable fees received from customers as revenue upon entering the contract and receiving payment, based solely upon a non-refundable clause in the contract, or recognition of non-refundable fees received throughout the term of a contract as revenue, without substantiating that the related performance obligation has been satisfied or has been satisfied over time, generally would not be sufficient substantiation of the analysis required by ASC 606 to determine the proper timing of revenue recognition. The foregoing practice would result in firms overstating their revenues and understating their non-allowable assets and liabilities, which in some cases, would result in net capital deficiencies or a material reduction in the firms' reported excess net capital.

To comply with ASC 606 in recognizing revenue from contracts with customers, firms should ensure that they are able to demonstrate, through a documented policy and analysis that is applied consistently, the basis for their revenue recognition practices, in accordance with the requirements of ASC 606. Specifically, firms should analyze each contract with their customers for the performance obligation(s) thereunder and the revenue associated with each such obligation, and document when and how such performance obligation(s) has been satisfied.

Further, firms should ensure that their annual reports are prepared in accordance with SEA Rule 17a-5 and include appropriate footnote disclosures required by ASC 606. Additionally, revenue reported on the FOCUS report required to be filed under SEA Rule 17a-5, as well as on the Supplemental Statement of Income required to be filed under FINRA Rule 4524, should be reported in accordance with ASC 606 and be consistent with the revenue recognition disclosures made in the firm's annual report. (Ref. Regulatory Notice 23-21; Published Date: December 22, 2023) ►►

Implementation Strategy

The designated FINOP/PFO/POO will analyze customer contract for any performance obligation(s) and the revenue associated with such obligations, and document when and how such performance obligation(s) has been satisfied in accordance with ASC 606. Additionally, the designated FINOP/PFO/POO will ensure that the Firm's annual reports are prepared in accordance with SEA Rule 17a-5, and include appropriate footnote disclosures required by ASC 606, and any revenue reported on the FOCUS report required under SEA Rule 17a-5, as well as on the SSOI under FINRA Rule 4524, should be reported in accordance with ASC 606 and be consistent with the revenue recognition disclosures made in the firm's annual report.

Assignment of Responsibility for General Ledger Accounts and Identification of Suspense Accounts

In accordance with FINRA Rule 4523(a), each member shall designate an associated person who shall be responsible for each general ledger bookkeeping account and account of like function used by the member and such associated person shall control and oversee entries into each

such account and shall determine that the account is current and accurate as necessary to comply with all applicable FINRA rules and federal securities laws governing books and records and financial responsibility requirements. A supervisor shall, as frequently as is necessary considering the function of the account but, in any event, at least monthly, review each account to determine that it is current and accurate and that any items that become aged or uncertain as to resolution are promptly identified for research and possible transfer to a suspense account(s).

In accordance with FINRA Rule 4523(b), each carrying or clearing member shall maintain a record of the names of the associated persons assigned primary and supervisory responsibility for each account as required by paragraph (a) of this Rule. All records made pursuant to this paragraph (b) shall be preserved for a period of not less than six years.

In accordance with FINRA Rule 4523(c), each member must record, in an account that shall be clearly identified as a suspense account, money charges or credits and receipts or deliveries of securities whose ultimate disposition is pending determination. A record must be maintained of all information known with respect to each item so recorded. Such suspense accounts include, but are not limited to, DK fails, unidentified fails, unallocable securities receipts versus payment, returned deliveries, and any other receivable or payable (money or securities) "suspended" because of doubtful ownership, collectibility or deliverability. To the extent that suspense items can be distinguished by type, separate accounts may be used provided that the word "suspense" is made a prominent part of the account title. All records made pursuant to this paragraph shall be preserved for a period of not less than six years. ►►

Implementation Strategy

The designated FINOP is the person who is responsible for each general ledger bookkeeping account used by the Firm. The FINOP is also responsible for controlling and overseeing entries into each general ledger account and shall determine that the account is current and accurate as necessary to comply with all applicable FINRA rules and federal securities laws governing books and records and financial responsibility requirements.

Reconciliation of proprietary accounts and bank statements

The designated FINOP is responsible for reconciling the firm’s bank statements and proprietary accounts.

Implementation Strategy

The designated Financial and Operations Principal (FINOP) is responsible for the supervision and performance of the Firm’s responsibilities under all financial responsibility rules promulgated pursuant to the Securities and Exchange Act of 1934.

More specifically, as the FINOP is responsible for the final approval and accuracy of financial records produced by the Firm in addition to other matters involving financial and operational management. Additionally, the designated FINOP is responsible for all persons assisting with the preparation of the Firm’s financial records to include overall supervision of persons responsible for the Firm’s financials and back-office operations related to the Firm’s financials.

FOCUS Filing Requirements

The designated FINOP is responsible for ensuring that the FOCUS II or FOCUS IIA filings are complete, accurate and on time. FINRA members that are subject to FOCUS filings are required to file either a FOCUS II or IIA report quarterly and a Schedule 1 report with the December FOCUS filing. Additionally, firms with minimum net capital requirement of greater than $100,000

are required to make filings monthly. Any firm whose fiscal year end is on any day other than a quarter calendar month end is required to complete and file the 5th FOCUS filing.

The following is a list of FOCUS filing requirements pursuant to *SEC Rule 17a-5*.

Monthly and Fifth FOCUS Filings

- FOCUS II or IIA SEC *Rule 17a-5(2)(i)*- All broker/dealers subject to SEC Rule 15c3-1 (the net capital rule) with minimum net capital requirements of greater than $100,000;
- 5th FOCUS II or IIA *SEC Rule 17a-5(2)(ii)*- All broker/dealers subject to SEC Rule 15c3-1 (the net capital rule) whose year-end is anything *other than the calendar quarter*.

Monthly and Fifth FOCUS II/IIA Filings

Monthly and Fifth* FOCUS II/IIA Filings
A Fifth FOCUS report is an additional report that is due from a member whose fiscal year end is a date other than the calendar quarter. Filings are due no later than 11:59 p.m. ET on the due dates noted below.

Period Ending	Due Date
January 31, 2025	February 26, 2025
February 28, 2025	March 25, 2025
April 30, 2025	May 23, 2025
May 31, 2025	June 25, 2025
July 31, 2025	August 25, 2025
August 31, 2025	September 24, 2025
October 31, 2025	November 26, 2025
November 30, 2025	December 23, 2025

(Ref. Information Notice 11/5/24; Published Date November 5, 2024)

* Trade Date is provided for reference purposes only. Positions are to be reported as of settlement date.
** Eastern Time

Quarterly Filings

- FOCUS IIA *SEC Rule 17a-5(2)(iii)*- All broker/dealers who do not carry or clear customer accounts (fully disclosed);

- FOCUS II SEC *Rule 17a-5(2)(ii)*- All broker/dealers who carry and clear customer accounts (clearing firms).

Quarterly FOCUS Filings

Quarter Ending	Due Date
December 31, 2024	January 27, 2025
March 31, 2025	April 23, 2025
June 30, 2025	July 24, 2025
September 30, 2025	October 24, 2025
December 31, 2025	January 27, 2026

(Ref. Information Notice 11/5/24; Published Date November 5, 2024)

SEA Rule 17a-5(a) requires that every broker-dealer registered with the SEC file a periodic FOCUS Report (Part II or Part IIA of Form X-17A-5 Financial and Operational Combined Uniform Single Report) depending upon a firm's activities. These reports, which detail a firm's financial and operational conditions, are submitted electronically to FINRA.
FINRA's alert-monitoring criteria is designed to more closely survey those firms that carry customer accounts or self-clear transactions that may be experiencing financial or operational problems that warrant special monitoring. The criteria that historically have been used include:

1. Cumulative losses in two consecutive months equal to or in excess of 25 percent of current excess net capital.
2. Cumulative losses in three consecutive months equal to or in excess of 30 percent of current excess net capital.
3. Net capital ratio at or in excess of 1,000 percent or less than 5 percent of SEA Rule 15c3-3 aggregate debits.
4. Net capital of less than 150 percent of a firm's minimum net capital requirement.
5. Debt/equity ratio of 70 percent or greater for a period of 30 days or more.
6. Net capital of less than 25 percent of haircuts, excluding contractual commitment haircuts
7. Restriction or reduction in business pursuant to FINRA Rule 4120.
8. Other internal or external factors as determined by the staff, including but not limited to, severe operational or books and records problems, cash flow problems and proprietary and/or customer concentrations.

FINRA is adding an additional criterion to the above list that is intended to measure leverage. The new leverage ratio will be computed by dividing total balance sheet assets, less U.S. Treasury and U.S. government agency inventory by total regulatory capital (the sum of stockholder's equity and subordinated debt). Any carrying or clearing firm whose ratio of such assets to regulatory capital exceeds 20 to one will be identified for further follow-up. If a firm meets this criterion, it should expect to be contacted by its Regulatory Coordinator with a request for more information, including a breakdown of the collateral between government-guaranteed and other securities collateralizing reverse repurchase and securities borrowed agreements. (Ref. Notice 10-44; issued September 2010)

eFOCUS Updates

The SEC has adopted amendments that simplify and update, among other rules and forms, certain of the FOCUS reporting requirements for brokers and dealers and make changes to the annual audit requirements. FINRA is updating the electronic FOCUS filing system (the eFOCUS System) to incorporate the SEC's amendments.

Pursuant to SEA Rule 17a-5, members are required to file with FINRA, through the eFOCUS System, reports concerning their financial and operational status using SEC Form X-17A-5 (referred to as the FOCUS Report). The SEC's amendments update the FOCUS Report to reflect updated U.S. Generally Accepted Accounting Principles (U.S. GAAP) requirements. More specifically, the amendments revise the Statement of Financial Condition and the Statement of Income in the FOCUS Reports to include new line items added for the reporting of comprehensive income, including other comprehensive income and accumulated other comprehensive income. The amendments update line items to eliminate references to extraordinary gains or losses and the cumulative effect of changes in accounting principles.

The new FOCUS reporting requirements apply beginning with FOCUS reports filed for the period ending January 2019 and after. For example, for firms filing as of the last day

of the month, the FOCUS reporting requirements apply beginning with FOCUS reports filed for the period ending January 31, 2019, and after. (Ref. Regulatory Notice 18-38-Financial Reporting Requirements; November 5, 2018)

Guidance on FOCUS Reporting for Operating Leases

The FASB's Lease Accounting Update introduced changes to the treatment of operating leases by requiring that a lessee must include on its balance sheet an asset and liability arising from an operating lease. However, in the no-action relief letter, the SEC staff noted that under paragraph (c)(2)(iv) of Rule 15c3-1, the operating lease asset would be a non-allowable asset for purposes of determining net worth. As such, absent relief, a broker-dealer lessee would need to deduct the operating lease asset from its net worth when computing net capital. Further, the SEC staff noted that a broker-dealer lessee using the aggregate indebtedness standard under Rule 15c3-1 to determine its minimum net capital requirement would be required to include the operating lease liability in its aggregate indebtedness calculation.

In the no-action relief letter, the SEC staff stated that it will not recommend enforcement action to the Commission under Rule 15c3-1 in the following circumstances:

- if a broker-dealer computing net capital adds back an operating lease asset to the extent of the associated operating lease liability. The SEC staff stated that a broker-dealer cannot add back an operating lease asset to offset an operating lease liability unless the asset and the liability arise from the same operating lease and the amount of the asset as to each lease may not exceed the liability arising from that lease;
- if a broker-dealer determining its minimum net capital requirement using the aggregate indebtedness standard does not include in its aggregate indebtedness an operating lease liability to the extent of the associated operating lease asset. The SEC staff stated that if the value of the operating lease liability exceeds the associated operating lease asset, the amount by which the lease liability exceeds the lease asset must be included in the broker-dealer's aggregate indebtedness

To assist members in their FOCUS reporting obligations, and in response to member inquiries, FINRA is providing the following guidance to members for reporting lease assets and lease liabilities on their FOCUS reports based on discussions with the SEC staff.

To Report the Operating Lease Asset on FOCUS Report Part II, Part IIA

- Members should report the operating lease asset on the line "Property, furniture, equipment, leasehold improvements and rights under lease agreements" as follows:
    - report the portion of the asset to be added back in Box 490 (under the "Allowable" column);
    - report any non-allowable portion of the asset in Box 680 (under the "Non-Allowable" column).
- To Report the Operating Lease Liability

On FOCUS Report Part II

- Members should report the operating lease liability on the line "Accounts payable and accrued liabilities and expenses – F. Other" as follows:
    - report the portion that is not an aggregate indebtedness liability in Box 1380 (under the "Non-A.I. Liabilities" column);
    - report the portion that is an aggregate indebtedness liability in Box 1200 (under the "A.I. Liabilities" column)

- Members should report the operating lease liability on the line “Accounts payable, accrued liabilities, expenses and other” as follows:
    - report the portion that is not an aggregate indebtedness liability in Box 1385 (under the “Non-A.I. Liabilities” column);
    - report the portion that is an aggregate indebtedness liability in Box 1205 (under the “A.I. Liabilities” column).

Redesigned eFOCUS System and SEC Security-Based Swap (SBS) Requirements

In 2019, the Securities and Exchange Commission (SEC) adopted amendments that revise certain of the Financial and Operational Combined Uniform Single (FOCUS) reporting and annual report requirements that apply to brokers and dealers pursuant to SEA Rule 17a-5 to take account of security-based swap (SBS) activity. Further, as a result of these changes, to avoid duplication with the SEC’s new requirements, FINRA has revised the Supplemental Inventory Schedule (SIS) so that members that file the new FOCUS Report Part II, pursuant to the SEC’s amendments, will no longer need to file the SIS. The amendments are designed, among other things, to elicit more detailed information about derivatives positions and exposures.

Below are some highlights of how the SEC’s amendments impact financial reporting:

- The SEC has amended FOCUS Report Part II. Members that currently file FOCUS Report Part II will file the amended FOCUS Report Part II;
- FOCUS Report Part II CSE will be discontinued. Firms that currently file FOCUS Report Part II CSE will instead file FOCUS Report Part II, as amended;
- Schedule 1 (Aggregate Securities, Commodities and Swaps Positions) of FOCUS Report Part II, as amended, elicits substantially all the information that the current SIS requires. To avoid duplication with Schedule 1 of the SEC’s amended FOCUS Report Part II, FINRA has revised the SIS so that members that file FOCUS Report Part II, as amended, will not need to file the SIS;
- The SEC has updated the Facing Page and Oath or Affirmation (Part III of Form X-17A-5), which members submit with their annual reports pursuant to Rule 17a-5. All members will use the amended Facing Page and Oath or Affirmation;
- FOCUS Report Part IIA is unchanged.

The SEC’s new FOCUS reporting requirements, and the revised SIS, will apply beginning with FOCUS reports and SIS filings that report on the period ending October 31, 2021, and are required to be filed in November 2021. (Ref. FINRA Information Notice 06/03/21)

Supplemental Statement of Income (SSOI)

Pursuant to Rule 17a-5 under the Securities Exchange Act of 1934 (SEA), firms are required to file with FINRA reports concerning their financial and operational status using SEC Form X-17A-5, Financial and Operational Combined Uniform Single (FOCUS) Report. The SEC has approved the adoption of a new rule that provides a mechanism by which FINRA can obtain from firms more detailed financial information to augment the FOCUS Report. New FINRA Rule 4524 requires each firm, as FINRA shall designate, to file such additional financial or operational schedules or reports as FINRA may deem necessary or appropriate for the protection of investors or in the public interest as a supplement to the FOCUS Report.

The SEC has approved the adoption of a new supplementary schedule or Supplemental Statement of Income (SSOI) under FINRA Rule 4524. The SSOI contains additional line items that seek a more detailed categorization of the revenue and expense line items that are on the Statement of Income (Loss) page of the FOCUS Report Part II, Part IIA and

Part II CSE. The SSOI will help FINRA better understand a firm's revenue sources and expense composition on an ongoing basis. The SSOI also includes instructions that provide definitions and guidance with respect to certain line items. The SSOI contains a *de minimis* exception for providing details of revenue and expenses for certain designated sections. If the aggregate amount for the designated section is less than the greater of $5,000 or 5 percent of the firm's total revenue or total expense, as applicable, for the reporting period, a firm is only required to enter the aggregate amount to complete the section. Further, FINRA notes that, just as is the case with the Statement of Income (Loss) page of the FOCUS Report, not every line item on the SSOI will apply to every firm, especially those with limited business lines or product offerings. As part of the SSOI, FINRA will require additional information from firms that derived more than 10 percent of their total revenues during a reporting period from participation in unregistered offerings. These firms must complete an Operational Page that requires certain specific information about each unregistered offering. Each firm is required to file the SSOI within 20 business days of the end of each calendar quarter using the eFOCUS system available through FINRA's Firm Gateway. (Ref. Regulatory Notice 12-11; February 2012)

FINRA is separately considering revisions to the Supplementary Statement of Income (SSOI) designed to conform to the SEC's new requirements. (Ref. Regulatory Notice 18-38; November 5, 2018)►►

Quarter Ending	Due Date
December 31, 2024	January 30, 2025
March 31, 2025	April 28, 2025
June 30, 2025	July 29, 2025
September 30, 2025	October 29, 2025
December 31, 2025	January 30, 2026

(Ref. Information Notice 11/5/24; Published Date November 5, 2024)

Implementation Strategy

The designated Financial and Operations Principal (FINOP) will complete the Supplemental Statement of Income (SSOI) information within 20 business days of the end of each calendar quarter as required.

Supplemental Statement of Income (SSOI) Update

FINRA has updated the Supplemental Statement of Income (SSOI) to conform with amendments adopted by the SEC that simplify and update certain of the FOCUS reporting requirements for broker-dealers. Pursuant to Rule 4524, the SSOI must be filed by all FINRA members as a supplement to the FOCUS Report within 20 business days after the end of each calendar quarter.

On August 17, 2018, the SEC adopted amendments that simplify and update, among other rules and forms, certain of the FOCUS reporting requirements for brokers and dealers and make changes to the annual audit requirements. As previously announced in Regulatory Notice 18-38, FINRA has updated the eFOCUS forms to reflect the SEC's FOCUS Report amendments. Additionally, FINRA has updated the SSOI instructions and form to conform with the SEC's amendments. (Ref. Regulatory Notice 19-02; January 8, 2019)

Form Custody

Pursuant to the newly approved SEA Rule 17a-5(a)(5), all broker-dealers are required to file Form Custody with their DEA at the same time they file their periodic quarterly FOCUS Reports with such DEA pursuant to SEA Rule 17a-5(a).

Quarter Ending	Due Date
December 31, 2024	January 27, 2025
March 31, 2025	April 23, 2025
June 30, 2025	July 24, 2025
September 30, 2025	October 24, 2025
December 31, 2025	January 27, 2026

(Ref. Information Notice 11/5/24; Published Date November 5, 2024)

Implementation Strategy

The designated FINOP will file all Form Custody filings within the prescribed time frames as specified above. A copy of the completed Form Custody filing will be maintained on the CRD system as well as maintained in hardcopy form as part of the Firm's books and records.

Supplemental Schedule for Derivatives and Other Off-Balance Sheet Items (Form OBS)

The SEC has approved FINRA's proposal to amend the instructions to the Derivatives and Other Off-Balance Sheet Items Schedule (OBS) to expand the application of the OBS to certain non-carrying/non-clearing firms that have significant amounts of off-balance sheet obligations. Subject to a *de minimis* exception, the OBS must be filed by (1) all FINRA member firms that self-clear their proprietary transactions or clear transactions for others or carry customer accounts; and (2) all other FINRA member firms that have, pursuant to Rule 15c3-1 under the Securities Exchange Act of 1934 (SEA), a minimum dollar net capital requirement equal to or greater than $100,000 and at least $10 million in reportable items pursuant to the OBS. Newly filing firms must file with FINRA their initial OBS disclosing off-balance sheet information as of June 30, 2016, on or before August 2, 2016. Carrying or clearing firms that were subject to the OBS's reporting requirements before the recently approved expansion shall continue to file on a quarterly basis, as required, without interruption.

FINRA Rule 4524 (Supplemental FOCUS Information) requires all firms that carry customer accounts or self-clear or clear transactions for others (referred to, collectively, as "carrying or clearing firms") to file with FINRA the OBS within 22 business days of the end of each calendar quarter, unless the carrying or clearing firm meets the *de minimis* exception set forth in the instructions to the OBS. A firm that claims the *de minimis* exception must affirmatively indicate through the eFOCUS system that no filing is required for the reporting period by using the "NOT FILE" option on the submission. (Ref. Regulatory Notice 16-11; April 2016)

Quarter Ending	Due Date
December 31, 2024	February 3, 2025
March 31, 2025	April 30, 2025
June 30, 2025	July 31, 2025
September 30, 2025	October 31, 2025
December 31, 2025	February 3, 2026

(Ref. Information Notice 11/5/24; Published Date November 5, 2024)

Implementation Strategy

Not applicable. The Firm does not maintain a minimum dollar net capital requirement equal to or greater than $100,000 and does not have at least $10 million in reportable items. Therefore, the designated supervisor will ensure that the Firm affirmatively indicates through the eFOCUS system that no filing is required for the reporting period by using the "NOT FILE" option on the submission within 22 business days of the end of each calendar quarter.

Supplemental Inventory Schedule (SIS)

The SIS must be filed by a firm that is required to file FOCUS Report Part II, FOCUS Report Part IIA or FOGS Report Part I, with inventory positions as of the end of the FOCUS or FOGS reporting period, unless the firm has (1) a minimum dollar net capital or liquid capital requirement of less than $100,000; or (2) inventory positions consisting only of money market mutual funds. A firm with inventory positions consisting only of money market mutual funds must affirmatively indicate through the eFOCUS system that no SIS filing is required for the reporting period.

Month Ending	Due Date
December 31, 2024	January 30, 2025
January 31, 2025	March 3, 2025
February 28, 2025	March 28, 2025
March 31, 2025	April 28, 2025
April 30, 2025	May 29, 2025
May 31, 2025	June 30, 2025
June 30, 2025	July 29, 2025
July 31, 2025	August 28, 2025
August 31, 2025	September 29, 2025
September 30, 2025	October 29, 2025
October 31, 2025	December 2, 2025
November 30, 2025	December 29, 2025
December 31, 2025	January 30, 2026

(Ref. Information Notice 11/5/24; Published Date November 5, 2024)

Implementation Strategy

Not applicable. The Firm either (1) does not maintain inventory positions; (2) maintains inventory positions consisting only of money market mutual funds; or (3) does not maintain a minimum dollar net capital or liquid capital requirement of at least $100,000.

(OR)

The Firm's designated FINOP is responsible for filing an SIS on a quarterly basis as required on or before the specified due dates above.

Supplemental Liquidity Schedule (SLS)

The SLS must be filed by each carrying member with $25 million or more in free credit balances, as defined under SEA Rule 15c3-3(a)(8), and by each member whose aggregate amount outstanding under repurchase agreements, securities loan contracts

and bank loans is equal to or greater than $1 billion, as reported on the member's most recently filed FOCUS Report, unless otherwise permitted by FINRA in writing. The SLS must be completed as of the last business day of each month and filed within 24 business days after the end of the month. A member need not file the SLS for any period where the member does not meet the $25 million or $1 billion thresholds.

Month Ending	Due Date
December 31, 2024	February 5, 2025
January 31, 2025	March 7, 2025
February 28, 2025	April 3, 2025
March 31, 2025	May 2, 2025
April 30, 2025	June 4, 2025
May 31, 2025	July 7, 2025
June 30, 2025	August 4, 2025
July 31, 2025	September 4, 2025
August 31, 2025	October 3, 2025
September 30, 2025	November 4, 2025
October 31, 2025	December 8, 2025
November 30, 2025	January 5, 2026
December 31, 2025	February 5, 2026

(Ref. Information Notice 11/5/24; Published Date November 5, 2024)

Implementation Strategy

Not applicable. The Firm is not a carrying member with $25 million or more in free credit balances, as defined under SEA Rule 15c3-3(a)(8), or a member whose aggregate amount outstanding under repurchase agreements, securities loan contracts and bank loans is equal to or greater than $1 billion, as reported on the member's most recently filed FOCUS Report.

Calendar Year End Filings

- Schedule 1 *SEC Rule 17a-5(2)(ii) and (iii)*- All NASD members subject to *SEC Rule 15c3-1* (the net capital rule). Schedule 1 is attached to the December FOCUS filing. This report contains miscellaneous information including: types of clearing arrangements, market making information, employee and branch office counts, etc.

Annual Schedule I Filings

Period	Due Date
2024	January 27, 2025
2025	January 27, 2026

(Ref. Information Notice 11/5/24; Published Date November 5, 2024)

The designated FINOP is responsible for the completion of the FOCUS filing as described above. The FINOP will also print a copy of the completed FOCUS filing and store it pursuant to *SEC Rule 17a-5*. SEC Rule17a-5 requires broker/dealers to file monthly FOCUS Reports (Part II) and quarterly FOCUS Reports (Part II or IIA) within 17 business days after month- or quarter-end. SEC Rule 17a-10 requires firms to file Schedule I with their FOCUS Reports within 17 business days after calendar year-end. FOCUS Reports and Schedule I must be filed electronically with

NASD at https:// regulationformfiling.nasdr.com no later than midnight, Eastern Standard Time (EST), of the due date. ►►

Implementation Strategy

The designated Financial and Operations Principal (FINOP) shall file all Firm FOCUS filings within the prescribed time frames as specified above. Upon filing, the designated FINOP shall also print a copy of the completed FOCUS filing, initial and date it pursuant to *SEC Rule 17a-5*, as evidence of review.

FOCUS Report Disclosures

Pursuant to *NASD NTM 02-05*, the NASD has modified the FOCUS Report to include disclosure, pursuant to Financial Accounting Standards Board Statement 140 (Statement 140), of amounts of inventory pledged, non-cash collateral received in secured financing transactions, and residual interests carried as a result of asset-collateralized securitizations. Beginning with the December 2001 FOCUS Report, members, who are required to file FOCUS Report, Part II, need to disclose:

- the dollar value of inventory pledged to secure a bank loan, or a security lending or re-purchase transaction, to the extent that the third party receiving the collateral has the right to sell or re-pledge such collateral;
- the market value of securities received as collateral, which were pledged by a counter-party as a result of a securities lending or repurchase arrangement, as well as an offsetting amount representing the obligation to return pledged securities; and
- the fair value of residual interests, over which the firm has retained control, in a special purpose entity (SPE), and an offsetting amount representing contingent obligations to the beneficial owners of interests in the SPE.►►

Implementation Strategy

The designated Financial and Operations Principal (FINOP) shall file all applicable disclosures regarding the Firm's FOCUS filings such as any amounts of pledged inventory, non-cash collateral received in secured financing transactions, and/or residual interest carried as a result of asset-collateralized securitizations. Upon filing, the designated FINOP shall also print a copy of the completed FOCUS filing, initial and date it pursuant to *SEC Rule 17a-5*, as evidence of review.

Members should note that, pursuant to the SEC's amendments, the annual audit report must contain a Statement of Comprehensive Income, in place of a Statement of Income, if there is other comprehensive income in the period presented.6 As noted above, this requirement applies to annual audit reports due for fiscal years ending in January 2019 and after. (Ref. Regulatory Notice 18-38; November 5, 2018)

Annual Audit

The designated FINOP or other authorized principal is responsible for ensuring that a designated certified public accountant (CPA) completes an audit of the Firm's financial statements on an annual basis in accordance with *SEC Rule 17a-5(d)*. Annual audits are due 60 calendar days after the end of a broker/dealer's fiscal year. All reports are due by midnight, Eastern Standard Time (EST). A report is considered filed when received. If the due date of an annual audit falls on a weekend or business holiday, the audit will be accepted up to the next business day following the weekend or holiday.

In accordance with FNIRA Information Notice issued Jan. 8. 2009, non-public broker-dealer firms must have their fiscal year 2009 and subsequent financial statements audited by independent public accounting firm registered with the Public Company Accounting Oversight Board (PCAOB). (Ref. Info. Notice; Effective Jan. 8, 2009)

Firms must submit their annual reports to FINRA in electronic form. Pursuant to SEA Rule 17a-5(d)(6), firms must also file the report at the regional office of the SEC in which the firm has its principal place of business and the SEC's principal office in Washington, DC. Members are reminded that the SEC has a process for electronic filing of annual reports, in lieu of filing in paper form, which the SEC simplified and updated in January 2017.

In February 2021, the SEC issued an order that permits specified firms an additional 30 calendar days to file their annual reports as required pursuant to SEA Rule 17a-5(d), subject to certain conditions. The SEC's order, in response to a request by FINRA, is designed to ease potential burdens that smaller members may face in obtaining audit services. Members that meet the conditions set forth in the SEC's order and wish to avail themselves of the 30-day extension must provide notification to FINRA as described further in Regulatory Notice 21-05. (Information Notice- 11/12/21)

Rule 17a-5(d)(6) requires firms that are members of the Securities Investor Protection Corporation (SIPC) to file the annual report with SIPC. Members are reminded that in August 2017, SIPC and FINRA announced an agreement designed to ease reporting burdens and compliance costs for firms. Pursuant to the agreement, when a firm that is a SIPC member files an annual report through FINRA's Firm Gateway on or after September 1, 2017, this will also constitute filing with SIPC. (Information Notice- 11/11/19)

Annual Audit Filings

Period Ending	Due Date	Due Date for Firms That Meet Conditions for 30-Day Extension
November 30, 2024	January 29, 2025	February 28, 2025
December 31, 2024	March 3, 2025	March 31, 2025
January 31, 2025	April 1, 2025	May 1, 2025
February 28, 2025	April 29, 2025	May 29, 2025
March 31, 2025	May 30, 2025	June 30, 2025
April 30, 2025	June 30, 2025	July 29, 2025
May 31, 2025	July 30, 2025	August 29, 2025
June 30, 2025	August 29, 2025	September 29, 2025
July 31, 2025	September 29, 2025	October 29, 2025
August 31, 2025	October 30, 2025	December 1, 2025
September 30, 2025	December 1, 2025	December 29, 2025
October 31, 2025	December 30, 2025	January 29, 2026
November 30, 2025	January 29, 2026	March 2, 2026
December 31, 2025	March 2, 2026	March 31, 2026

(Ref. Information Notice 11/5/24; Published Date November 5, 2024)

Updated SEC No-Action Guidance and Instructions on Electronic Filing of Broker-Dealer Annual Reports

Pursuant to the SEC staff's updated no-action letter, broker-dealers and OTC derivative dealers may file the required annual and supplemental reports with the SEC electronically, in lieu of filing the reports with the SEC in paper form. The reports must be filed electronically through the SEC's

Electronic Data Gathering, Analysis and Retrieval (EDGAR) system. (Regulatory Notice17-07; February 2017)

SEC Grants FINRA Request for 30-Day Extension for Smaller Broker-Dealers

The SEC has issued an Order that permits specified FINRA members an additional 30 calendar days for filing their annual reports as required pursuant to SEA Rule 17a-5(d), subject to certain conditions. The SEC's Order is in response to a request by FINRA that is designed to ease potential burdens that smaller members may face in obtaining audit services. Members that meet the conditions set forth in the SEC's Order and wish to avail themselves of the 30-day extension must provide notification to FINRA as described further in this Notice.

The SEC's Order is immediately effective, so members that meet the conditions set forth in the Order may avail themselves of the extension beginning with the current filing cycle for their December 31, 2020, and January 31, 2021, annual reports.

In response to FINRA's request, the SEC's Order grants an additional 30 calendar days for filing the annual reports to each FINRA member that meets the following conditions:

1. As of its most recent fiscal year end, the member:
    a. was in compliance with Rule 15c3-1; and
    b. had total capital and allowable subordinated liabilities of less than $50 million, as reported in box 3530 of Part II or Part IIA of its FOCUS Report;
2. The member is permitted to file an exemption report as part of its most recent fiscal year end annual reports;
3. The member submits written notification to FINRA of its intent to avail itself of the additional 30 calendar days for filing its annual reports on an ongoing basis for as long as it meets the conditions set forth in the SEC's Order; and
4. The member files the annual reports electronically with the Commission using an appropriate process. (SEC Order of February 12, 2021; Ref. Regulatory Notice 21-05; February 18, 2021)

The designated supervisor shall ensure the following procedures are conducted and properly supervised in accordance with *SEC Rule 17a-5(d)*: ►►

Implementation Strategy

The designated Financial and Operations Principal (FINOP) is responsible for ensuring that a designated certified public accountant (CPA) completes an audit of the Firm's financial statements on an annual basis. Additionally, in compliance with Info. Notice effective Jan. 8, 2009, the FINOP will ensure that the annual audit is conducted by an independent public accounting firm registered with the Public Company Accounting Oversight Board (PCAOB) (see below for further details). In accordance with *SEC Rule 17a-5(d) the* FINOP shall ensure that an annual report of audited financial statements and supplemental information are completed and mailed within sixty (60) calendar days after the Firm's fiscal year end.

FINRA is revising the process by which member firms submit to FINRA the annual audited financial statements required by Securities Exchange Act (SEA) Rule 17a-5(d) (annual audit reports). Effective November 8, 2011, firms must submit their annual audit report in electronic form through FINRA's Firm Gateway annual audit electronic submission interface. The audit must be submitted in Portable Document Format (PDF). This requirement is applicable to annual audit reports with a fiscal year end on or after September 30, 2011. Please refer to Regulatory Notice 11-46 for further information about the new filing process.

Note: Firms must continue to file annual audit reports in hard copy form with the SEC.

Late Fees

If an annual audit is submitted late, the filing may be subject to administrative fees, as outlined in FINRA's By-Laws, not to exceed $100 per day up to a maximum amount of $1,000. Further information on late fees and failure to file may be found in NTM 01-54. If your firm is unable to meet the filing deadline due to exceptional circumstances, you may request an extension by writing to your Regulatory Coordinator no later than three business-days prior to the filing deadline.

PCAOB-Registered Auditor Requirement

In Information Notice 12/9/09, FINRA reminds firms that their auditor must be registered with the Public Company Accounting Oversight Board (PCAOB). FINRA recommends that firms verify the PCAOB registration status of the auditor they plan to use to audit their annual financial statements. If the accounting firm is not yet registered with the PCAOB, FINRA suggests that firms encourage the auditor to apply for registration as soon as possible.

FINRA will treat financial statements certified by an auditor who is not PCAOB-registered as not having been filed under Schedule A of the FINRA By-Laws, Section 4(g)(2)&(3). Such firms are subject to suspension under the procedures stated in FINRA Rule 9552 (Failure to Provide Information or Keep Information Current).

Requests for Extension of Time

Broker/dealers that are unable to meet the filing deadline for any of the reports mentioned above due to exceptional circumstances may request an extension of time pursuant to Schedule A of NASD's By-Laws by writing the appropriate District Office of NASD. The request for an extension of time must be received no later than three (3) business days before the filing deadline. Also see SEC Grants FINRA Request for 30-Day Extension for Smaller Broker-Dealer above.

“For Cause” Audit

In accordance with FINRA Rule 4140(a) FINRA may at any time, due to concerns regarding the accuracy or integrity of a member's financial statements, books and records or prior audited financial statements, direct any member to cause an audit to be made by an independent public accountant of its accounts, or cause an examination to be made in accordance with attestation, review or consultation standards prescribed by the AICPA. Such audit or examination shall be directed pursuant to authority exercised by FINRA's Executive Vice President charged with oversight for financial responsibility, or his or her written officer delegate, and shall be made in accordance with such requirements as FINRA may prescribe.

In accordance with FINRA Rule 4140(b), any member failing to file an audited financial and/or operational report or examination report under this Rule in the prescribed time shall be subject to a late fee as set forth in Schedule A Section 4(g)(1) to the FINRA By-Laws. ►►

Implementation Strategy

In the event that FINRA directs the Firm to undergo an audit or examination by an independent public accountant of its accounts, the designated FINOP will be responsible for ensuring that a designated certified public accountant (CPA) completes the audit or examination of the Firm’s financial statements as requested. Additionally, in compliance with Info. Notice effective Jan. 8, 2009, the FINOP will ensure that the annual audit is conducted by an independent public accounting firm registered with the Public Company Accounting Oversight Board (PCAOB).

Upon completion, the Firm will submit its audit report in electronic form through FINRA's Firm Gateway annual audit electronic submission interface.

Note: The Firm must continue to file annual audit reports in hard copy form with the SEC.

SEC Financial Responsibility Rules Updates

SEA Rules 15c3-1g and 17a-5

FINRA updated select Securities Exchange Act (SEA) financial responsibility and reporting rules in the Interpretations of Financial and Operational Rules to reflect the effectiveness of certain amendments the Securities and Exchange Commission (SEC) adopted. The updated imbedded text relates to SEA Rules 15c3-1g and 17a-5.

In August 2018, the SEC adopted amendments to several rules for broker-dealers. FINRA updated the imbedded SEC rule text in the Interpretations of Financial and Operational Rules to reflect certain amendments to the financial responsibility and reporting rules that became effective on November 5, 2018. The updated imbedded text relates to SEA Rules 15c3-1g and 17a-5.

SEA Rule	Remove Old Pages	Add New Page
15c3-1g	1611-1614	1611-1615
17a-5	3232-3235	3232-3236

SEA Rule 15c3-1g(b)(1)(i)(H) Update

File reports with the Commission in accordance with the following:

(1) If it is not an ultimate holding company that has a principal regulator, as that term is defined in § 240.15c3-1(c)(13), the ultimate holding company shall file with the Commission:

(i) A report as of the end of each month, filed not later than 30 calendar days after the end of the month. A monthly report need not be filed for a month-end that coincides with a fiscal quarter-end. The monthly report shall include:

(A) A consolidated balance sheet and income statement (including notes to the financial statements) for the ultimate holding company and statements of allowable capital and allowances for market, credit, and operational risk computed pursuant to paragraph (a) of this Appendix G, except that the consolidated balance sheet and income statement for the first month of the fiscal year may be filed at a later time to which the Commission agrees (when reviewing the affiliated broker's or dealer's application under § 240.15c3-1e(a)). A statement of comprehensive income (as defined in § 210.1–02 of Regulation S–X of this chapter) shall be included in place of an income statement, if required by the applicable generally accepted accounting principles.

(B) A graph reflecting, for each business line, the daily intra-month VaR;

(C) Consolidated credit risk information, including aggregate current exposure and current exposures (including commitments) listed by counterparty for the 15 largest exposures;

(D) The 10 largest commitments listed by counterparty;

(E) Maximum potential exposure listed by counterparty for the 15 largest exposures;

(F) The aggregate maximum potential exposure;

(G) A summary report reflecting the geographic distribution of the ultimate holding company's exposures on a consolidated basis for each of the top ten countries to which it is exposed (by residence of the main operating group of the counterparty); and

(H) Certain regular risk reports provided to the persons responsible for managing group-wide risk as the Commission may request from time to time

(ii) A quarterly report as of the end of each fiscal quarter, filed not later than 35 calendar days after the end of the quarter. The quarterly report shall include, in addition to the information contained in the monthly report as required by paragraph (b)(1)(i) of this Appendix G, the following:

(A) Consolidating balance sheets and income statements for the ultimate holding company. The consolidating balance sheet must provide information regarding each material affiliate of the ultimate holding company in a separate column, but may aggregate information regarding members of the affiliate group that are not material affiliates into one column. Statements of comprehensive income (as defined in § 210.1–02 of Regulation S–X) shall be included in place of an income statement, if required by the applicable generally accepted accounting principles;

(B) The results of backtesting of all internal models used to compute allowable capital and allowances for market and credit risk indicating, for each model, the number of backtesting exceptions;

(C) A description of all material pending legal or arbitration proceedings, involving either the ultimate holding company or any of its affiliates, that are required to be disclosed by the ultimate holding company under generally accepted accounting principles;

(D) The aggregate amount of unsecured borrowings and lines of credit, segregated into categories, scheduled to mature within twelve months from the most recent fiscal quarter as to each material affiliate; and

(E) For a quarter-end that coincides with the ultimate holding company's fiscal yearend, the ultimate holding company need not include consolidated and consolidating balance sheets and income statements (or statements of comprehensive income, as applicable) in its quarterly reports. The consolidating balance sheet and income statement (or statement of comprehensive income, as applicable) for the quarter-end that coincides with the fiscal year-end may be filed at a later time to which the Commission agrees (when reviewing the affiliated broker's or dealer's application under § 240.15c3-1e(a));

(iii) An annual audited report as of the end of the ultimate holding company's fiscal year, filed not later than 65 calendar days after the end of the fiscal year. The annual report shall include:

(A) Consolidated financial statements for the ultimate holding company audited by a registered public accounting firm, as that term is defined in Section 2(a)(12) of the Sarbanes Oxley Act of 2002 (15 U.S.C. 7201 et seq.). The audit shall be made in accordance with the rules promulgated by the Public Company Accounting Oversight Board. The audited financial statements must include a supporting schedule containing statements of allowable capital and allowances for market, credit, and operational risk computed pursuant to paragraph (a) of this Appendix G; and

(B) A supplemental report entitled "Accountant's Report on Internal Risk Management Control System" prepared by a registered public accounting firm, as that term is defined

in Section 2(a)(12) of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7201 et seq.), indicating the results of the registered public accounting firm's review of the ultimate holding company's compliance with § 240.15c3-4. The procedures are to be performed and the report is to be prepared in accordance with procedures agreed upon by the ultimate holding company and the registered public accounting firm conducting the review. The agreed upon procedures are to be performed and the report is to be prepared in accordance with rules promulgated by the Public Company Accounting Oversight Board. The ultimate holding company must file, before commencement of the initial review, the procedures agreed upon by the ultimate holding company and the registered public accounting firm with the Division of Market Regulation, Office of Financial Responsibility, at Commission's principal office in Washington, DC. Before commencement of each subsequent review, the ultimate holding company must notify the Commission of any changes in the procedures;

(iv) An organizational chart, as of the ultimate holding company's fiscal year-end, concurrently with its quarterly report for the quarter-end that coincides with its fiscal year-end. The ultimate holding company must provide quarterly updates of the organizational chart if a material change in the information provided to the Commission has occurred

(2) If the ultimate holding company is an entity that has a principal regulator, as that term is defined in § 240.15c3-1(c)(13), the ultimate holding company must file with the Commission:

(i) A quarterly report as of the end of each fiscal quarter, filed not later than 35 calendar days after the end of the quarter, or a later time to which the Commission may agree upon application. The quarterly report shall include:

(A) Consolidated (including notes to the financial statements) and consolidating balance sheets and income statements for the ultimate holding company. Statements of comprehensive income (as defined in § 210.1–02 of Regulation S–X) shall be included in place of income statements, if required by the applicable generally accepted accounting principles;

(B) Its most recent capital measurements computed in accordance with the standards published by the Basel Committee on Banking Supervision, as amended from time to time, as reported to its principal regulator;

(C) Certain regular risk reports provided to the persons responsible for managing group-wide risk as the Commission may request from time to time; and

(D) For a quarter-end that coincides with the ultimate holding company's fiscal yearend, the ultimate holding company need not include consolidated and consolidating balance sheets and income statements (or statements of comprehensive income, as applicable) in its quarterly reports. The consolidating balance sheet and income statement (or statement of comprehensive income, as applicable) for the quarter-end that coincides with the fiscal year-end may be filed at a later time to which the Commission agrees (when reviewing the affiliated broker's or dealer's application under § 240.15c3-1e(a)).

(ii) An annual audited report as of the end of the ultimate holding company's fiscal year, filed with the Commission when required to be filed by any regulator.

(3) The reports that the ultimate holding company must file in accordance with paragraph (b) of this Appendix G will be considered filed when two copies are received at the Commission's principal office in Washington, DC. A person who files reports pursuant to this section for which he or she seeks confidential treatment may clearly mark each page or segregable portion of each page with the words "Confidential Treatment Requested." The copies shall be addressed to the Division of Market Regulation, Risk Assessment Group; and

(4) The reports that the ultimate holding company must file with the Commission in accordance with paragraph (b) of this Appendix G will be accorded confidential treatment to the extent permitted by law.

SEA Rule 17a-5 Update

FINANCIAL REPORT (SEA Rule 17a-5(d)(2)(iii))

The financial report must contain:

> (i) A Statement of Financial Condition, a Statement of Income, a Statement of Cash Flows, a Statement of Changes in Stockholders' or Partners' or Sole Proprietor's Equity, and a Statement of Changes in Liabilities Subordinated to Claims of General Creditors. The statements must be prepared in accordance with U.S. generally accepted accounting principles and must be in a format that is consistent with the statements contained in Form X-17A-5 (§ 249.617 of this chapter) Part II or Part IIA. If the Statement of Financial Condition filed in accordance with instructions to Form X-17A-5, Part II or Part IIA, is not consolidated, a summary of financial data, including the assets, liabilities, and net worth or stockholders' equity, for subsidiaries not consolidated in the Part II or Part IIA Statement of Financial Condition as filed by the broker or dealer must be included in the notes to the financial statements reported on by the independent public accountant.
>
> Note 1 to paragraph (d)(2)(i): If there is other comprehensive income in the period(s) presented, the financial report must contain a Statement of Comprehensive Income (as defined in § 210.1–02 of Regulation S–X of this chapter) in place of a Statement of Income.
>
> (ii) Supporting schedules that include, from Part II or Part IIA of Form X-17A-5 (§ 249.617 of this chapter), a Computation of Net Capital Under § 240.15c3-1, a Computation for Determination of the Reserve Requirements under Exhibit A of § 240.15c3-3, and Information Relating to the Possession or Control Requirements Under § 240.15c3-3.
>
> (iii) If either the Computation of Net Capital under § 240.15c3-1 or the Computation for Determination of the Reserve Requirements Under Exhibit A of § 240.15c3-3 in the financial report is materially different from the corresponding computation in the most recent Part II or Part IIA of Form X-17A-5 (§ 249.617 of this chapter) filed by the broker or dealer pursuant to paragraph (a) of this section, a reconciliation, including appropriate explanations, between the computation in the financial report and the computation in the most recent Part II or Part IIA of Form X-17A-5 filed by the broker or dealer. If no material differences exist, a statement so indicating must be included in the financial report

/01 Reconciliation of FOCUS Report to the Annual Audit

If a broker-dealer files an amended FOCUS report (as of its audit date) that varies materially from the original FOCUS report, a reconciliation and explanation of material differences between the amended report and the original report must be filed. The reconciliation should include at a minimum the original and amended amounts and an explanation of the differences. The audit report may be reconciled with the amended FOCUS report and a statement as to whether any material differences are noted and the date of the amended FOCUS filing must be included

(3) COMPLIANCE REPORT

> (i) The compliance report must contain:
>
> > (A) Statements as to whether:

(1) The broker or dealer has established and maintained Internal Control Over Compliance as that term is defined in paragraph (d)(3)(ii) of this section;

(2) The Internal Control Over Compliance of the broker or dealer was effective during the most recent fiscal year;

(3) The Internal Control Over Compliance of the broker or dealer was effective as of the end of the most recent fiscal year;

(4) The broker or dealer was in compliance with §§ 240.15c3-1 and 240.15c3-3(e) as of the end of the most recent fiscal year; and

(5) The information the broker or dealer used to state whether it was in compliance with §§ 240.15c3-1 and 240.15c3-3(e) was derived from the books and records of the broker or dealer.

(B) If applicable, a description of each material weakness in the Internal Control Over Compliance of the broker or dealer during the most recent fiscal year.

(C) If applicable, a description of any instance of non-compliance with §§ 240.15c3-1 or 240.15c3-3(e) as of the end of the most recent fiscal year.

(ii) The term Internal Control Over Compliance means internal controls that have the objective of providing the broker or dealer with reasonable assurance that non-compliance with § 240.15c3-1, § 240.15c3-3, § 240.17a-13, or any rule of the designated examining authority of the broker or dealer that requires account statements to be sent to the customers of the broker or dealer (an "Account Statement Rule") will be prevented or detected on a timely basis

(iii) The broker or dealer is not permitted to conclude that its Internal Control Over Compliance was effective during the most recent fiscal year if there were one or more material weaknesses in its Internal Control Over Compliance during the most recent fiscal year. The broker or dealer is not permitted to conclude that its Internal Control Over Compliance was effective as of the end of the most recent fiscal year if there were one or more material weaknesses in its internal control as of the end of the most recent fiscal year. A material weakness is a deficiency, or a combination of deficiencies, in Internal Control Over Compliance such that there is a reasonable possibility that non-compliance with §§ 240.15c3-1 or 240.15c33(e) will not be prevented or detected on a timely basis or that non-compliance to a material extent with § 240.15c3-3, except for paragraph (e), § 240.17a-13, or any Account Statement Rule will not be prevented or detected on a timely basis. A deficiency in Internal Control Over Compliance exists when the design or operation of a control does not allow the management or employees of the broker or dealer, in the normal course of performing their assigned functions, to prevent or detect on a timely basis non-compliance with § 240.15c3-1, § 240.15c3-3, § 240.17a-13, or any Account Statement Rule.

(4) EXEMPTION REPORT

The exemption report must contain the following statements made to the best knowledge and belief of the broker or dealer:

(i) A statement that identifies the provisions in § 240.15c3-3(k) under which the broker or dealer claimed an exemption from § 240.15c3-3;

(ii) A statement that the broker or dealer met the identified exemption provisions in § 240.15c3-3(k) throughout the most recent fiscal year without exception or that it met the identified exemption provisions in § 240.15c3-3(k) throughout the most recent fiscal year except as described under paragraph (d)(4)(iii) of this section; and

(iii) If applicable, a statement that identifies each exception during the most recent fiscal year in meeting the identified exemption provisions in § 240.15c3-3(k) and that briefly describes the nature of each exception and the approximate date(s) on which the exception existed.

(5) The annual reports must be filed not more than sixty (60) calendar days after the end of the fiscal year of the broker or dealer.

(6) The annual reports must be filed at the regional office of the Commission for the region in which the broker or dealer has its principal place of business, the Commission's principal office in Washington, DC, the principal office of the designated examining authority for the broker or dealer, and with the Securities Investor Protection Corporation ("SIPC") if the broker or dealer is a member of SIPC. Copies of the reports must be provided to all self-regulatory organizations of which the broker or dealer is a member, unless the self-regulatory organization by rule waives this requirement. (Ref. Regulatory Notice 18-42; December 18, 2018)

SEA Rule 15c3-1(c)(2)(viii)(C)/06 Update

FINRA updated the Interpretations of Financial and Operational Rules to add the following new interpretation regarding SEA Rule 15c3-1(c)(2)(viii)(C)/06 (Underwriting Backstop Agreement). This interpretation relates to the conditions under which an underwriting backstop agreement in a firm commitment underwriting would not give rise to an open contractual commitment charge.

SEA Rule	Remove Old Pages	Add New Page
15c3-1	654	654

The updated interpretation states that a member of an underwriting syndicate in a firm commitment underwriting (the "backstop recipient") is not required to take an open contractual commitment charge arising from its underwriting commitment if the backstop recipient enters into a written agreement with another syndicate member (the "backstop provider") that:

1. is executed and effective at or before the time the backstop recipient becomes obligated to the underwriting commitment;
2. requires the backstop provider to deduct in its net capital computation any applicable open contractual commitment charge that the backstop recipient would otherwise be required to take into account in its net capital computation; and
3. unequivocally requires the backstop provider to purchase any unsold securities allocated to the backstop recipient under the underwriting agreement.

The backstop provider and backstop recipient must comply with all other applicable laws, rules, and regulations of the Commission and any self-regulatory organization of which they are members. (Ref. Regulatory Notice 19-11; April 9, 2019)

FINRA has updated its interpretations in the Interpretations of Financial and Operational Rules related to SEA Rules 15c3-1 and 15c3-3, as set forth below. Page references are to the hardcopy version. These interpretations have been updated with specific additions, revisions and rescissions. (Ref. Regulatory Notice 21-27; July 22, 2021)

The following interpretations have been **added**:

- SEA Rule 15c3-1(c)(1)(i)/02 (Indebtedness in the Proprietary Trading Account of a Broker-Dealer) on page 182
- SEA Rule 15c3-1(c)(2)(i)(G)/01 (Services Arrangement with a Parent or an Affiliate) on page 226
- SEA Rule 15c3-1(c)(2)(iv)(B)/16 (Deficits or Unsecured Balances in Securities Transactions with a Federal Reserve Bank) on page 283

- SEA Rule 15c3-1(c)(2)(iv)(C)/095 (Unsecured Receivables and Related Payables) on page 298
- SEA Rule 15c3-1(c)(2)(viii)(C)/033 (Offsetting Sale Commitments in an Unregistered Offering) on page 653
- SEA Rule 15c3-1(e)/01 (Services Arrangement with a Parent or an Affiliate) on page 855
- SEA Rule 15c3-3(j)(2)(ii)(B)(*3*)(*i*)(*C*)/01 (Changing, Adding or Deleting Products Available Through a Sweep Program) on page 2467
- SEA Rule 15c3-3(Exhibit A - Note E(5))/02 (Exclusion of Omnibus Accounts from the Requirements of Note E(5)) on page 2606
- SEA Rule 15c3-3(Exhibit A - General)/012 (Netting a Customer's Account Balances when Preparing the Reserve Formula Computation under the Alternative Standard) on page 2622
- SEA Rule 15c3-3 (Exhibit A - Item 10)/10 (Term Debits in Customers' Accounts Collateralized by Securities Subject to Restrictions on Use) on page 2729

The following interpretations have been **revised**:

- SEA Rule 15c3-1(a)/01 (Additional Net Capital Requirement) on page 1
- SEA Rule 15c3-1(c)(1)/11 (Accrued Liability for Concessions or Commissions Payable) on page 153
- SEA Rule 15c3-1(c)(2)(iv)(C)/091 (Concessions Receivable from Individual Variable Annuities are Allowable for 30 Days; from Group Variable Annuities an Offset is Permitted) on page 296
- SEA Rule 15c3-1(c)(2)(viii)(C)/032 (Offsetting Sale Commitments in a Registered Offering) on page 653
- SEA Rule 15c3-3(a)(1)/01 (Customer/Non-Customer Classification) on page 2003
- SEA Rule 15c3-3 (Exhibit A - Item 10)/07 (Debit Balances in Customers' Accounts Collateralized by Control or Restricted Securities) on page 2728

The following interpretations have been **rescinded**:

- SEA Rule 15c3-1(c)(2)(iv)(C)/09 (Commissions or Concessions Receivable versus Commissions or Concessions Payable) on page 296

SEA Rule 15c3-3(Exhibit A - Item 11)/041 (Federal Reserve Bank as a Non-Customer) on page 2744

Updates to Interpretations of Financial and Operational Rules

FINRA is updating the imbedded SEA rule text in the Interpretations of Financial and Operational Rules to reflect amendments adopted by the SEC that relate to SEA Rules 15c3-1, 15c3-1a, 15c3-1b, 15c3-1d, 15c3-1e, 15c3-3, 15Fi-1 through 15Fi-5, 17a-3, 17a-4, 17a-5, 17a-11 and 18a-3. Revisions and redesignations of the interpretations that are updates in connection with the SEC's amendments to SEA Rules 15c3-1, 17a-3, 17a-4 and 17a-5 are set forth below. Page references are to the hardcopy version.

The following interpretation has been **revised**:

- SEA Rule 17a-4(b)(5)/01 (15c3-3 Reserve Computations) on page 3103

The following interpretations have been **redesignated**:

- SEA Rule 15c3-1(c)(2)(xii)/01 (Reverse Repurchase Agreements—Rescinded) redesignated to SEA Rule 15c3-1(c)(2)(xii)(A)/01 on page 721

- SEA Rule 15c3-1(c)(2)(xii)/011 (Reverse Repurchase Agreements) redesignated to SEA Rule 15c3-1(c)(2)(xii)(A)/011 on page 721

- SEA Rule 15c3-1(c)(2)(xii)/02 (Government National Mortgage Association (GNMA)) redesignated to SEA Rule 15c3-1(c)(2)(xii)(A)/02 on page 722

- SEA Rule 15c3-1(c)(2)(xii)/03 (Regulation T Calls for Margin) redesignated to SEA Rule 15c3-1(c)(2)(xii)(A)/03 on page 722

- SEA Rule 15c3-1(c)(2)(xii)/04 (Non-Purpose Loans Collateralized by Certificates of Deposit) redesignated to SEA Rule 15c3-1(c)(2)(xii)(A)/04 on page 722

- SEA Rule 15c3-1(c)(2)(xii)/05 (Credit Extended Upon Exercise of Employee Stock Option) redesignated to SEA Rule 15c3-1(c)(2)(xii)(A)/05 on page 723

- SEA Rule 15c3-1(c)(2)(xii)/06 (Credit Extended to Customers on Control or Restricted Stock) redesignated to SEA Rule 15c3-1(c)(2)(xii)(A)/06 on page 723

- SEA Rule 15c3-1(c)(2)(xii)/061 (Customers Foreign Currency Options Collateralized by Letters of Credit) redesignated to SEA Rule 15c3-1(c)(2)(xii)(A)/061 on page 723

- SEA Rule 15c3-1(c)(2)(xii)/07 (Maintenance Requirement for Proprietary Accounts Carried for Joint Back Office Broker-Dealers) redesignated to SEA Rule 15c3-1(c)(2)(xii)(A)/07 on page 724

- SEA Rule 17a-3(a)(5)/01 (OCC Daily Position Report in Lieu of Securities Position Record) redesignated to SEA Rule 17a-3(a)(5)(i)/01 on page 3005

- SEA Rule 17a-3(a)(5)/02 (Loanet Reports in Lieu of Stock Record) redesignated to SEA Rule 17a-3(a)(5)(i)/02 on page 3005

- SEA Rule 17a-3(a)(8)/01 (DTC Institutional Delivery (ID) System Confirmations) redesignated to SEA Rule 17a-3(a)(8)(i)/01 on page 3013

- SEA Rule 17a-3(b)(1)/01 (Floor Broker Requirements) redesignated to SEA Rule 17a-3(c)/01 on page 3061

- SEA Rule 17a-5(a)(2)(i)/01 (NYSE Monthly Part II Requirement) redesignated to SEA Rule 17a-5(a)(1)(i)/01 on page 3201

- SEA Rule 17a-5(a)(2)(i)/02 (NYSE Requirements for Guaranteed Subsidiary/Associated Partnership) redesignated to SEA Rule 17a-5(a)(1)(i)/02 on page 3201

- SEA Rule 17a-5(a)(2)(i)/03 (Retroactive Application of Changes in Accounting Principles) redesignated to SEA Rule 17a-5(a)(1)(i)/03 on page 3202

- SEA Rule 17a-5(a)(2)(ii)/01 (NYSE FOCUS Filing Due Dates) redesignated to SEA Rule 17a-5(a)(1)(ii)/01 on page 3203

- SEA Rule 17a-5(a)(2)(iii)/01 (NYSE FOCUS Filing Due Dates) redesignated to SEA Rule 17a-5(a)(1)(iii)/01 on page 3203

- SEA Rule 17a-5(a)(7)/01 (FOCUS Extension Request) redesignated to SEA Rule 17a-5(a)(6)/01 on page 3207

- SEA Rule 17a-5(e)(4)(ii)/01 (Supplemental SIPC Report Exemption) redesignated to SEA Rule 17a-5(e)(4)/01 on page 3242

- SEA Rule 17a-5(e)(4)(ii)/02 (SIPC Reports Exemption for Guaranteed Subsidiary) redesignated to SEA Rule 17a-5(e)(4)/02 on page 3242

The following interpretations have been **revised** and **redesignated**:

- SEA Rule 17a-3(b)(2)/01 (Exchange Market Maker's Using Clearance Account as Books and Records) revised and redesignated to SEA Rule 17a-3(c)/02 on page 3061

SEA Rule 17a-4(i)/01 (Exchange Market Maker's Using Clearance Account as Books and Records) revised and redesignated to SEA Rule 17a-4(i)(1)/01 on page 3124. Ref. FINRA Regulatory Notice 21-45; December 28, 2021

6.03 Early Warning Notification (SEC Rule 17a-11)

The designated FINOP is responsible for ensuring compliance with the early warning provisions of *SEC Rule 17a-11*. *SEC Rule 17a-11* is designed to give regulatory agencies an early warning of pending financial, books and records, and operational problems of broker/dealers.

Telegraphic Notification

This rule requires all firms to give immediate "telegraphic" notice to the SEC Principal Office located in Washington D.C., the appropriate regional SEC office, and the appropriate designated examining authority (NASD members contact the appropriate district office) at any time a firm is notified or becomes aware of the following circumstances:

- The firm's net capital falls below the minimum capital requirements;
- The firm's aggregate indebtedness exceeds 1500% of its net capital (800% for firms that are members of a designated examining authority for less than a year);
- The firm's net capital is less than 2% of its aggregate debits as computed in its *SEC Rule 15c3-3* Reserve Formula calculation;
- The firm's debt-to-equity ratio exceeds 70%.

Prompt Written Notification

The rule also requires all firms to file prompt written notification under the following circumstances:

- The firm's aggregate indebtedness (AI) exceeds 1200% of its net capital;
- The firm's net capital is less than 120% of its minimum required net capital;
- The firm's net capital under the alternative method is less than 5% of its aggregate debit items on the *Rule 15c3-3* Reserve Formula Calculation.

Telegraphic and Written Notification

Firms are required to give "telegraphic" notice AND written notification under the following conditions:

- The firm becomes aware that it has failed to make and maintain the appropriate books and records specified under *SEC Rule 17a-3*. Telegraphic notice must be

made immediately and written notice with an explanation of the corrective actions taken must be filed within 48 hours;

- The firm is notified by an independent certified public accountant or becomes aware of the existence of material inadequacies in its accounting system, internal control, or procedures for safeguarding customer funds or securities. Telegraphic notice must be made within 24 hours and written notice with an explanation of the corrective actions taken must be filed within 48 hours.

The FINOP will maintain the responsibility for accurately preparing the previously mentioned documents and financial statements. Additionally, the FINOP is required to initial each document in order to memorialize supervisory review and approval. All books and records documentation will be maintained and preserved in an easily assessable location pursuant to *SEC Rule 17a-5*. ►►

Implementation Strategy

The designated Financial and Operations Principal (FINOP) shall promptly notify the SEC Principal Office in Washington D.C., the appropriate regional SEC office, and the appropriate designated examining authority (DEA) in the event that the Firm encounters any pending financial, books and records, and/or operational problems as specified under *SEC Rule 17a-11*. In the event that the Firm's net capital falls below the minimum capital requirements; aggregate indebtedness exceeds maximum percentages of its net capital; net capital is less than the minimum percentages of its aggregate debits as computed based on the Reserve Formula calculation; or its debt-to-equity ratio exceeds the maximum percentage, the Firm will cease all securities and transactional activities until such time as the Firm can correct any deficiency. Moreover, the Firm will notify its designated clearing firm of the required notifications and its decision to cease operations until such deficiency is corrected. The designated FINOP will initial and date and maintain any/all relevant records and documentation, financial or otherwise, as evidence of such notification.

6.04 Cash/Currency Transactions

SEC Rule 17A-8 requires broker/dealer firms to file reports, draft and preserve records and adopt certain regulations pursuant to the *Currency Act*. The designated Financial and Operations Principal (FINOP) will have the responsibility of reporting multiple same day transactions in currency by or on behalf of any person that total more than $10,000.00. ►►

Implementation Strategy

The designated Financial and Operations Principal (FINOP) shall report any/all multiple same day currency transactions by or on behalf of any person that totals more than an aggregate amount of $10,000.00 pursuant to the Currency Act. The Designated FINOP shall record and date all notification and reporting actions as evidence of completion.

Note: Please see Anti-Money Laundering Procedures in this Manual (Section 10.0) for further details on the policies and procedures for cash/currency transactions.

6.05 Classification of Certain Equity as Liabilities (Statement 150)

To account for certain financial instruments with characteristics of both liabilities and equity, the Financial Accounting Standards Board (FASB) released Statement 150 to ensure that entities recognize as liabilities certain contractual obligations to transfer cash, other assets, or equity interests to other parties. One of the primary requirements of the Statement is the reclassification of mandatorily redeemable

financial instruments, generally defined as ownership interests in the issuing entity with mandatory redemption features, as liabilities.

The FASB concluded that if an entity issues a financial instrument that requires, or may require, the issuing entity to transfer cash, assets, and/or shares of its stock to the holder of the instrument, and if the value or amount of the assets or shares are fixed upon the issuance of the instrument, or based on an index whose value is determined independently of, or inversely to, the successful operations of the entity, that entity must classify the instrument as a liability.

As such, Statement 150 requires that financial instruments that are mandatorily redeemable and issued in the form of shares or other ownership interests be classified as liabilities. Ownership interests are considered mandatorily redeemable if they require the issuer to redeem the instrument by transferring its cash, assets, or other equity interests to the holder at a specified or determinable date (or dates), or upon an event certain to occur. However, ownership interests that are redeemable only upon the liquidation or termination of the issuing entity continue to be classified as equity.

Because Statement 150 applies to entities that are required to file financial statements with the SEC, non-public broker-dealers are subject to Statement 150 (including the provisions regarding the reclassification of mandatorily redeemable financial instruments as liabilities) beginning with the commencement of the first fiscal year starting after December 15, 2003.

Temporary Relief for Non-Public Broker/Dealers

Pursuant to a No-Action Letter by the SEC in January 2004, temporary relief may be granted to a broker/dealer that is a non-public entity, in calculating net capital under Rule 15c3-1, by permitting the addition to its regulatory net worth the carrying value of mandatorily redeemable financial instruments that Statement 150 excludes from the firm's GAAP equity.

The No-Action Letter states that "[t]he limitations on withdrawal of equity capital contained in paragraph (e) of Rule 15c3-1 still would apply." In addition, "[t]he amount added back to net worth also could be treated as equity in determining a broker-dealer's compliance with the debt to debt-equity total in paragraph (d) of Rule 15c3-1, provided it otherwise meets requirements of that paragraph." Further, this relief "would not affect the treatment of properly subordinated debt under Appendix D to Rule 15c3-1."

The relief provided by the No-Action Letter is temporary and is available only during the first fiscal year beginning after December 15, 2003. With the commencement of the fiscal year beginning after December 15, 2004, the effects of any reclassification of mandatorily redeemable financial instruments will flow through, without adjustment, to the computation of net capital. Therefore, the No-Action Letter gives non-public broker-dealers twelve months to revise the elements of their underlying capitalization that result in an unavoidable redemption obligation. ►►

Implementation Strategy

The designated FINOP or other designated and authorized person(s) shall review and check for any financial instruments that are mandatorily redeemable and issued in the form of shares or other ownership interests, and reclassify such instruments as liabilities if applicable. Additionally, any instruments which are subject to mandatory redemption will be accurately disclosed on the face of the balance sheet to distinguish those instruments from other liabilities to include disclosures in the notes to the financial statements on the nature and terms of, and the rights and obligations embodied in, such instruments, including information about settlement alternatives.

If applicable, the designated FINOP will recognize mandatorily redeemable financial instruments as liabilities upon the effective date of the Statement for the

particular entity, or following the effective date, upon the issuance of a mandatorily redeemable instrument. The amount to be recognized, if fixed, is the present value of the cash or assets to be exchanged. If the amount is variable, the issuer recognizes the value of the cash, other assets, or shares to be delivered as derived from the underlying index today.

Whether the Firm is granted limited relief provided by the No-Action Letter, it must reflect the recorded amounts of any/all mandatorily redeemable ownership interests classified as liabilities in "Notes & Mortgages Payable: B Secured" of the statement of financial condition in the FOCUS Report (Line 24 of FOCUS Form II or Line 18 of FOCUS Form IIA). The value of those ownership interests that would be redeemed for cash will be included in aggregate indebtedness and reported in field 1211, and the value of interests redeemable for other assets or other equity interests will be included in field 1390, of either the Part II or IIA FOCUS filing. *(Note: if the entire balance of equity capital must be reclassified as liabilities in accordance with Statement 150, the Firm may record a nominal amount, such as $1.00, in the equity section when completing the FOCUS electronically to be able to submit the filing.)* In the event that the Firm chooses to record an addition to net worth in computing net capital, it will reflect the amount and description of the add-back as an allowable credit on line 4 B, field 3525 in the computation of net capital.

6.06 Mandatory Electronic Filing Requirements

The SEC has approved the adoption of Rule 3170 (Mandatory Electronic Filing Requirements), which gives FINRA the authority to require firms to file or submit electronically any regulatory notice or other document that a member is required to file with (or otherwise submit to) FINRA.

Starting January 1, 2007, FINRA requires members to file electronically certain notices required to be filed under the Exchange Act via an electronic, Internet-based receiving and processing system, using templates developed by FINRA for each notice. FINRA members can access the templates for these regulatory notices on FINRA's Web site. All members that file FOCUS reports will have access to the System, which will be available to members on FINRA's Web site as part of FINRA's infrastructure for Web-based regulatory form filing. (Ref. NTM 06-61; Effective Dec. 6, 2006) ►►

Implementation Strategy

Starting on January 1, 2007, the designated supervisor will ensure that the following notices are filed with FINRA electronically within the required time frames as specified under each rule:

- Withdrawals of equity capital- *Rule 15c3-1(e)*
- Special Reserve Bank Account- *Rule 15c3-3(i)*
- Electronic storage media- *Rule 17a-4(f)(2)(i);Rule 17a-4(f)(3)(vii)*
- Replacement of accountant- *Rule 17a-5(f)(4)*
- Net capital deficiency- *Rule 17a-11(b)*
- Aggregate indebtedness is in excess of 1200 percent of net capital- *Rule 17a-11(c)(1)*
- Net capital is less than 5 percent of aggregate debit items- *Rule 17a-11(c)(2)*
- Net capital is less than 120 percent of required minimum dollar amount- Rule *17a-11(c)(3)*
- Failure to make and keep current books and records- *Rule 17a-11(d)*
- Material inadequacy in accounting systems, internal controls, or practices and procedures- *Rule 17a-11(e)*

Note: in the event of a detected or otherwise discovered net capital deficiency on the part of the Firm, the designated CCO will ensure that the Firm promptly notifies the designated FINOP within the same day of the net capital deficiency.

At that time the FINOP will make the required notifications in accordance with Rule 17a-11 and file such notifications through the CRD Notification Filing System within 24 hours of discovery.

The designated supervisor will maintain copies as documentary evidence of each filing in hardcopy format in addition to maintaining such filings through the electronic system.

6.07 Capital Compliance

In accordance with FINRA Rule 4110(a), when necessary for the protection of investors or in the public interest, FINRA may, at any time or from time to time with respect to a particular carrying or clearing member or all carrying or clearing members, prescribe greater net capital or net worth requirements than those otherwise applicable, including more stringent treatment of items in computing net capital or net worth, or require such member to restore or increase its net capital or net worth. In any such instance, FINRA shall issue a notice pursuant to Rule 9557.

Suspension of Business Operations

In accordance with FINRA Rule 4110(b)(1), unless otherwise permitted by FINRA, the Firm shall suspend all business operations during any period in which it is not in compliance with applicable net capital requirements set forth in SEA Rule 15c3-1. ►►

Implementation Strategy

The designated FINOP will conduct an ongoing and month-end assessment of the Firm's financial statements and net capital position to ensure ongoing net capital compliance. As part of its month-end review of financial statements and net capital, the FINOP will include a review of the following items:

- Any ongoing liabilities that may impact the member's balance sheet, including for example settlements and/or arbitration awards;
- Any contingent liabilities that may impact the firm's aggregate indebtedness calculation;
- The nature and timing of capital contributions and capital withdrawals;
- The proper treatment/handling of Expense Sharing Agreements; and
- The firm's activities to ensure that the proper net capital requirement, based on those activities, is being reported accurately on the firm's financial reports.

In the event that the Firm is NOT in compliance with net capital requirements, the FINOP will immediately suspend all business operations until such time that the Firm can fully comply with such requirements. The FINOP will also make all appropriate notifications to FINRA through CRD regarding any net capital violations.

Equity Withdrawals (One Year Time Period)

In accordance with FINRA Rule 4110(c)(1), no equity capital of a member firm may be withdrawn for a period of one year from the date such equity capital is contributed, unless otherwise permitted by FINRA in writing. Subject to the requirements of paragraph (c)(2) of this Rule, this paragraph shall not preclude a member from withdrawing profits earned. ►►

Implementation Strategy

The designated FINOP will conduct an ongoing review and month-end assessment of the Firm's financial statements and net capital position to ensure ongoing net capital compliance. As part of its month-end review, the FINOP will review for any capital contributions and capital withdrawals. The date and amount of each capital contribution and withdrawal will be recorded and treated under a first-in first-out (FIFO) method. The FINOP will review to ensure that the Firm does not withdrawal any capital within a period of one year from the date of any capital contribution unless permitted by FINRA in writing.

In the event that the Firm makes a capital withdrawal within a period of one year from the date of a capital contribution, the Firm will treat such capital contribution as a loan to the extent of the amount of the withdrawal and reflect such withdrawal as a liability on its financial statements. As a result of reclassifying the withdrawal as a liability and in the event that the Firm is NOT in compliance with net capital requirements, the designated supervisor will immediately suspend all business operations until such time that the Firm can fully comply with such requirements. The FINOP will also make all appropriate notifications to FINRA through CRD regarding any net capital violations.

Sale-And-Leasebacks, Factoring, Financing, Loans and Similar Arrangements

In accordance with FINRA Rule 4110(d)(1)(A), no carrying or clearing member shall consummate a sale-and-leaseback arrangement with respect to any of its assets, or a sale, factoring, or financing arrangement with respect to any unsecured accounts receivable, where any such arrangement would increase the member's tentative net capital by 10% or more, without the prior written authorization of FINRA.

In accordance with FINRA Rule 4110(d)(1)(B), no carrying member shall consummate any arrangement concerning the sale or factoring of customer debit balances, irrespective of amount, without the prior written authorization of FINRA.

In accordance with FINRA Rule 4110(d)(2), any loan agreement entered into by a carrying or clearing member, the proceeds of which exceed 10% of such member's tentative net capital and which is intended to reduce the deduction in computing net capital for fixed assets and other assets which cannot be readily converted into cash under SEA Rule 15c3-1(c)(2)(iv), must be submitted to and be acceptable to FINRA, prior to such reduction becoming effective.

In accordance with FINRA Rule 4110(d)(3), members subject to paragraphs (d)(1)(A), (d)(1)(B) or (d)(2), shall not consummate any arrangement pursuant to such paragraph(s) if the aggregate of all such arrangements outstanding would exceed 20% of such member's tentative net capital, without the prior written authorization of FINRA.

In accordance with FINRA Rule 4110(d)(4), any agreement relating to a determination of a "ready market" for securities based upon the securities being accepted as collateral for a loan by a bank under SEA Rule 15c3-1(c)(11)(ii), must be submitted to and be acceptable to FINRA before the securities may be deemed to have a "ready market." ►►

Implementation Strategy

Not applicable. The Firm does not currently maintain any agreement relating to a determination of a "ready market" for securities based upon the securities being accepted as collateral for a loan by a bank under SEA Rule 15c3-1(c)(11)(ii). However, in the event the Firm wishes to enter into an agreement relating to a determination of a "ready market," such agreement will be submitted to FINRA for review and approval before the securities may be deemed to have a "ready market."

Subordinated Loans, Notes Collateralized by Securities and Capital Borrowings

In accordance with FINRA Rule 4110(e)(1), all subordinated loans or notes collateralized by securities shall meet such standards as FINRA may require to ensure the continued financial stability and operational capability of the member, in addition to those specified in Appendix D of SEA Rule 15c3-1. ►►

Implementation Strategy

In the event that the Firm wishes to use subordinated loans and notes collateralized by securities (referred to as subordinations), each subordinated loan and note must be approved by FINRA in accordance with FINRA Rule 4110(e)(1) in order to receive beneficial regulatory capital treatment.

6.08 Regulatory Notification and Business Curtailment

Restrictions on Business Expansion

In accordance with FINRA Rule 4120(b)(1), except as otherwise permitted by FINRA in writing, a member that carries customer accounts or clears transactions shall not expand its business during any period in which any of the conditions described in paragraph (a)(1) continue to exist for more than 15 consecutive business days, provided that such condition(s) has been known to FINRA or the member for at least five consecutive business days. FINRA may issue a notice pursuant to Rule 9557 directing any such member not to expand its business; however, FINRA's authority to issue such notice does not negate the member's obligation not to expand its business in accordance with this paragraph (b)(1).

In accordance with FINRA Rule 4120(b)(2), no member firm may expand its business during any period in which FINRA restricts the member from expanding its business for any financial or operational reason. In any such instance, FINRA shall issue a notice pursuant to Rule 9557. ►►

Implementation Strategy

The designated FINOP or other authorized supervisor will monitor the Firm’s ongoing operations and financial status to ensure compliance with its FINRA Membership Agreement and any stipulated restrictions placed upon it as a condition of member approval. Any expansion efforts on the part of the Firm will be closely monitored and will comply with any stated restrictions related to the Firm’s financials or operations.

Reduction of Business

In accordance with FINRA Rule 4120(c)(1), except as otherwise permitted by FINRA in writing, a member that carries customer accounts or clears transactions is obligated to reduce its business to a point enabling its available capital to exceed the standards set forth in paragraph (a)(1)(A) through (F) of this Rule, when any of the following conditions continue to exist for more than 15 consecutive business days, provided that such condition(s) has been known to FINRA or the member for at least five consecutive business days:

(A) the member's net capital is less than 125 percent of its minimum dollar net capital requirement or such greater percentage thereof as may from time to time be designated by FINRA;

(B) the member is subject to the aggregate indebtedness requirement of SEA Rule 15c3-1, and its aggregate indebtedness is more than 1,200 percent of its net capital;

(C) the member elects to use the alternative method of computing net capital pursuant to SEA Rule 15c3-1(a)(1)(ii), and its net capital is less than one percentage point below the level specified in SEA Rule 17a-11(c)(2);

(D) the member is approved to use the alternative method of computing net capital pursuant to SEA Rule 15c3-1e, and its tentative net capital as defined in SEA Rule 15c3-1(c)(15) is less than 40 percent of the early warning notification amount required by SEA Rule 15c3-1(a)(7)(ii), or its net capital is less than $1 billion;

(E) the member is registered as a Futures Commission Merchant pursuant to the Commodity Exchange Act, and its net capital is less than 110% of the minimum risk-based capital requirements of Commodity Exchange Act Rule 1.17; or

(F) the member's deduction of capital withdrawals, including maturities of subordinated liabilities entered into pursuant to Appendix D of SEA Rule 15c3-1, scheduled during the next six months, and/or special deductions from net capital set forth in Rule 4210(e)(8)(C), would result in any one of the conditions described in paragraph (c)(1)(A) through (E) of this Rule.

FINRA may issue a notice pursuant to Rule 9557 directing any such member to reduce its business to a point enabling its available capital to exceed the standards set forth in paragraph (a)(1)(A) through (F) of this Rule; however, FINRA's authority to issue such notice does not negate the member's obligation to reduce its business in accordance with this paragraph (c)(1).

In accordance with FINRA Rule 4120(c)(2), a member firm must reduce its business as directed by FINRA for any financial or operational reason. In any such instance, FINRA shall issue a notice pursuant to Rule 9557. ►►

Implementation Strategy

The designated FINOP or other authorized supervisor will monitor the Firm's ongoing operations and financial status to ensure compliance with its FINRA Membership Agreement and any stipulated restrictions placed upon it as a condition of member approval. If required by FINRA, the Firm will reduce its business to a point enabling its available capital to exceed the standards set forth in FINRA Rule 4120(a)(1)(A) through (F) of this Rule.

6.09 Guarantees by, of Flow through Benefits for, Members

In accordance with FINRA Rule 4150(a), prior written notice shall be given to FINRA whenever any member guarantees, endorses or assumes, directly or indirectly, the obligations or liabilities of another person.

In accordance with FINRA Rule 4150(b), prior written approval must be obtained from FINRA whenever any member receives flow through capital benefits in accordance with Appendix C of SEA Rule 15c3-1. ►►

Implementation Strategy

In the event that the Firm plans on or otherwise anticipates guaranteeing, endorsing or assuming, directly or indirectly, the obligations or liabilities of another person, the Firm will immediately provide written notice to its appropriate FINRA district office for review and approval. The Firm will only engage in such activity upon approval

by FINRA. The approval of which will be maintained at the main office in accordance with books and records requirements.

6.10 SIPC 6/7 Assessment Filings

Beginning April 1, 2009, SIPC member broker/dealer firms are required to complete Assessment Forms SIPC-6 and SIPC-7, to be used for the net operating revenue assessment.

The SIPC-6 General Assessment Payment Forms should be completed and filed which reflects the first half of the fiscal year. The SIPC-6 Form and the assessment payment is due thirty (30) days after the end of the first six months of the fiscal year. Firms must retain the Working Copy of the SIPC-6 Form for a period of not less than six years, the latest two years in a readily accessible location.

The SIPC-7 General Assessment Reconciliation must be completed and filed at the end of the fiscal year with a place to deduct assessment due and paid as reflected on the SIPC-6 filed. The SIPC-7 Form and the assessment payment is due sixty (60) days after the end of the fiscal year. Firms must retain the Working Copy of the SIPC-6 Form for a period of not less than six years, the latest two years in a readily accessible location. ►►

Implementation Strategy

The designated FINOP will assist the Firm in completing the SIPC-6 and SIPC-7 Assessment filings within the required time periods. The SIPC-6 Assessment form and corresponding payment will be completed and mailed to SIPC within thirty days from the end of the first six months of the Firm's fiscal year. The SIPC-7 Form and corresponding assessment payment will be completed and mailed within sixty days from the end of the Firm's fiscal year. All SIPC Assessment filings will be maintained at the Firm's main office in accordance with books and records requirements.

6.11 Fidelity Bond Coverage

FINRA Rule 4360 requires each member firm that is required to join the Securities Investor Protection Corporation (SIPC) to maintain blanket fidelity bond coverage with specified amounts of coverage based on the firm's net capital requirement, with certain exceptions. Such firms must maintain fidelity bond coverage that provides for per loss coverage without an aggregate limit of liability.

Most fidelity bonds contain a definition of the term "loss" (or "single loss"), for purposes of the bond, which generally includes all covered losses resulting from any one act or a series of related acts. A payment by an insurer for covered losses attributed to a single loss does not reduce a firm's coverage amount for losses attributed to other, separate acts. A fidelity bond with an aggregate limit of liability caps a firm's coverage during the bond period at a certain amount if a loss (or losses) meets this aggregate threshold. FINRA believes that per loss coverage without an aggregate limit of liability provides firms with the most beneficial coverage since the bond amount cannot be exhausted by one or more covered losses, which means it will be available for future losses during the bond period.

A firm that does not qualify for a fidelity bond with per loss coverage and no aggregate limit of liability must maintain substantially similar fidelity bond coverage in compliance with all other provisions of the rule, provided that the firm maintains written correspondence from two insurance providers stating that the firm does not qualify for such coverage. The firm must retain such correspondence for the period specified by Exchange Act Rule 17a-4(b)(4).

A firm's fidelity bond must provide against loss and have Insuring Agreements covering at least the following: fidelity, on premises, in transit, forgery and alteration, securities and counterfeit currency.9 These Insuring Agreements are defined in the fidelity bond forms available to firms. FINRA Rule 4360 modifies the descriptive headings for these Insuring Agreements, in part, from NASD Rule 3020(a)(1) and

NYSE Rule 319(d) to align them with the headings in the current bond forms.10 In addition, FINRA Rule 4360 replaces the specific coverage provisions in the NASD and NYSE rules that permit less than 100 percent of coverage for certain Insuring Agreements (*i.e.*, fraudulent trading and securities forgery) so that coverage for all Insuring Agreements must be equal to 100 percent of the firm's minimum required bond coverage.

A firm's fidelity bond must include a cancellation rider providing that the insurer will use its best efforts to *promptly* notify FINRA in the event the bond is cancelled, terminated or substantially modified. FINRA Rule 4360 adopts the definition of "substantially modified" in NYSE Rule 31913 and incorporates NYSE Rule 319.12's standard that a firm must *immediately* advise FINRA in writing if its fidelity bond is cancelled, terminated or substantially modified.

Minimum Required Coverage

Each firm subject to the rule must maintain, at a minimum, fidelity bond coverage for any person associated with the firm, except directors or trustees who are not performing acts within the scope of the usual duties of an officer or employee. A firm with a minimum net capital requirement that is less than $250,000 must maintain minimum coverage of the greater of 120 percent of its required minimum net capital under Exchange Act Rule 15c3-1 or $100,000. The $100,000 minimum coverage requirement modifies the present minimum requirement of $25,000. FINRA believes this increase is warranted since the NASD and NYSE fidelity bond rules have not been materially modified since their adoption more than 30 years ago. Although firms may experience a slight increase in costs for their premiums under the new rule, FINRA believes that the amendments to the fidelity bond minimum requirements are necessary to provide meaningful and practical coverage for losses covered by the bond.

Firms with a minimum net capital requirement of at least $250,000 must use a table in FINRA Rule 4360 to determine their minimum fidelity bond coverage requirement. The table is a modified version of the tables in NASD Rule 3020(a)(3) and NYSE Rule 319(e)(i). The identical NASD and NYSE requirements for members that have a minimum net capital requirement that exceeds $1 million have been retained in FINRA Rule 4360; however, the rule adopts the higher requirements in NYSE Rule 319(e)(i) for a member with a net capital requirement of at least $250,000, but less than $1 million. The entire amount of a firm's minimum required coverage must be available for covered losses and may not be eroded by the costs an insurer may incur if it chooses to defend a claim. Specifically, any defense costs for covered losses must be in addition to a firm's minimum coverage requirements.18 A firm may include defense costs as part of its fidelity bond coverage, but only to the extent that it does not reduce its minimum required coverage under the rule.

Deductible Provision

FINRA Rule 4360 provides for an allowable deductible amount of up to 25 percent of the fidelity bond coverage purchased by a firm. Any deductible amount elected by the firm that is greater than 10 percent of the coverage purchased by the firm must be deducted from its net worth in the calculation of its net capital for purposes of Exchange Act Rule 15c3-1. Like the legacy NASD and NYSE rules, if the firm is a subsidiary of another FINRA member firm, this amount may be deducted from the parent's rather than the subsidiary's net worth, but only if the parent guarantees the subsidiary's net capital in writing.

Annual Review of Coverage

A member firm (including a firm that signs a multi-year insurance policy) must review, annually as of the yearly anniversary date of the issuance of its fidelity bond, the adequacy of its fidelity bond coverage and make any required adjustments to its coverage, as set forth in the rule. A firm's highest net capital requirement during the preceding 12- month period, based on the applicable method of computing net capital (dollar minimum, aggregate indebtedness or alternative standard), is the basis for determining the firm's minimum required fidelity bond coverage for the

succeeding 12-month period. The “preceding 12-month period” includes the 12-month period that ends 60 days before the yearly anniversary date of a firm’s fidelity bond to provide the firm time to determine its required fidelity bond coverage by the anniversary date of the bond.

A firm that has only been in business for one year and elected the aggregate indebtedness ratio for calculating its net capital requirement may use, solely for the purpose of determining the adequacy of its fidelity bond coverage for its second year, the 15 to 1 ratio of aggregate indebtedness to net capital in lieu of the 8 to 1 ratio (required for broker-dealers in their first year of business) to calculate its net capital requirement. Notwithstanding the above, such member may not carry less minimum fidelity bond coverage in its second year than it carried in its first year.

Exemptions

FINRA Rule 4360 exempts from the fidelity bond requirements firms in good standing with a national securities exchange that maintain a fidelity bond subject to the requirements of such exchange that are equal to or greater than the requirements set forth in the rule. Additionally, consistent with NYSE Rule Interpretation 319/01, FINRA Rule 4360 exempts from the fidelity bond requirements any firm that acts solely as a Designated Market Maker (DMM), floor broker or registered floor trader and does not conduct business with the public.

FINRA Rule 4360 does not maintain the exemption in NASD Rule 3020(e) for a one-person firm. Historically, a sole proprietor or sole stockholder member was excluded from the fidelity bond requirements based upon the assumption that such firms were one-person shops and, therefore, could not obtain coverage for their own acts. FINRA has determined that these firms can and often do acquire fidelity bond coverage, even though it is currently not required, since all claims (irrespective of firm size) are likely to be paid or denied on a facts-and-circumstances basis. In addition, FINRA believes that each Insuring Agreement required by FINRA Rule 4360 has the potential to benefit a one-person firm. Moreover, FINRA believes that requiring all SIPC member firms, regardless of size or structure, to maintain fidelity bond coverage promotes investor protection objectives and mitigates the effects of unforeseen losses. (Ref. Notice 11-21) ►►

Implementation Strategy

The designated FINOP is responsible for maintaining blanket fidelity bond coverage with specified amounts of coverage based on the firm’s net capital requirement. Additionally, any deductible amount elected by the Firm that is greater than 10 percent of the coverage purchased by the Firm will be deducted from its net worth in the calculation of its net capital for purposes of Exchange Act Rule 15c3-1.