Regulatory Notice 18-02

Liquidity Reporting and Notification

FINRA Requests Comment on Proposed Amendments to FINRA Rule 4521 and New Supplemental Liquidity Schedule

Comment Period Expires: March 8, 2018

Summary

FINRA is seeking comment on proposed amendments to FINRA Rule 4521 (Notifications, Questionnaires and Reports) that would require specified member firms to notify FINRA no more than 48 hours after specified events that may signal an adverse change in liquidity risk. FINRA also seeks comment on a proposed new Supplemental Liquidity Schedule (SLS) that member firms with the largest customer and counterparty exposures would file as a supplement to the FOCUS Report. On the new SLS, these firms would report information related to specified financing transactions and other sources or uses of liquidity. The information would include among other things financing term, collateral types and large counterparties.

FINRA is seeking comment on all aspects of the proposed amendments to Rule 4521 and the proposed new SLS (together, referred to as the "proposal"), including the impact of the proposal on market participants. The proposed amendments to Rule 4521 are available as Attachment A. The proposed SLS and instructions to the SLS are available as Attachments B and C, respectively.

Questions regarding this *Notice* should be directed to:

- Kris Dailey, Vice President, Risk Oversight & Operational Regulation, at (646) 315-8434;
- Kathryn E. Mahoney, Director, Financial Operations Policy Group, at (646) 315-8428; or
- Adam H. Arkel, Associate General Counsel, Office of General Counsel, at (202) 728-6961.

January 8, 2018

Notice Type

- Request for Comment

Suggested Routing

- Compliance
- Legal
- Operations
- Regulatory Reporting
- Risk Management
- Senior Management

Key Topics

- FOCUS Reports
- Liquidity Reporting and Notification
- Supplemental Liquidity Schedule

Referenced Rules & Notices

- FINRA Rule 4521
- FINRA Rule 4524
- FINRA Rule 6710
- Notice to Members 99-92
- Regulatory Notice 10-57
- Regulatory Notice 15-33
- SEA Rule 15c3-3
- SEA Rule 17a-5

Action Requested

FINRA encourages all interested parties to comment on the proposal. Comments must be received by March 8, 2018.

Comments must be submitted through one of the following methods:

- Emailing comments to *pubcom@finra.org*; or
- Mailing comments in hard copy to:

  Jennifer Piorko Mitchell
  Office of the Corporate Secretary
  FINRA
  1735 K Street, NW
  Washington, DC 20006-1506

To help FINRA process comments more efficiently, persons should use only one method to comment on the proposal.

Important Notes: All comments received in response to this *Notice* will be made available to the public on the FINRA website. In general, FINRA will post comments as they are received.[1]

Before becoming effective, a proposed rule change must be authorized for filing with the SEC by the FINRA Board of Governors, and then must be filed with the SEC pursuant to SEA Section 19(b).[2]

Background & Discussion

Effective monitoring of liquidity and funding risks is an essential element of firms' financial responsibility and an ongoing focus for FINRA's financial supervision programs. To that end, FINRA is issuing this *Notice* to seek comment on proposed amendments to FINRA Rule 4521 (Notifications, Questionnaires and Reports) and on a new Supplemental Liquidity Schedule (SLS) that specified member firms would file as a supplement to the FOCUS Report. The proposed rule amendments and the new SLS, in combination, are tailored requirements that will improve FINRA's ability to monitor for events that signal an adverse change in the liquidity risk of the firms that would be subject to the new requirements.

Firms' liquidity and funding stress was a significant factor in the financial crisis of 2008.[3] Since that time, FINRA has looked closely at firms' liquidity and funding risk management practices.[4] *Regulatory Notice 10-57* expressed FINRA's expectation that firms develop and maintain robust funding and liquidity risk management practices and discussed examinations that FINRA had conducted of the practices of selected firms. *Regulatory Notice 15-33* provided guidance on liquidity risk management practices and described

FINRA's review of policies and practices at selected firms related to managing liquidity needs in a stressed environment. FINRA believes that the proposed requirements are a logical complement to ongoing priorities and guidance that FINRA has communicated to firms.

In developing the proposal, FINRA has engaged in discussions with industry participants and has tailored the proposal to firms with the largest customer and counterparty exposures. As discussed further below, FINRA is seeking comment on all aspects of the proposal, including the proposal's impact on market participants.

Following is a summary of the key aspects of the proposal.

New SLS

The new, proposed SLS is tailored to larger firms and is intended to provide more detailed information about such firms' liquidity profile than is reflected on the FOCUS Report (Part II, Part IIA or Part II CSE, as appropriate). Under the proposal, unless otherwise permitted by FINRA in writing, the SLS is required to be filed by each carrying or clearing FINRA firm with $25 million or more in total credits, as determined pursuant to the customer reserve formula computation as set forth in SEA Rule 15c3-3 Exhibit A, and by each FINRA firm 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 most recently filed FOCUS Report.[5]

These firms would report information related to specified financing transactions and other sources or uses of liquidity.

Specifically, they would provide detailed reporting as to their reverse repurchase and repurchase agreements, securities borrowed and securities loaned, bank loans and other credit facilities, total available collateral, margin loans, collateral securing margin loans, deposits at clearing organizations, and cash and securities received and delivered on derivative transactions not cleared through a central clearing counterparty. The required information will enable FINRA to more effectively assess these firms' ability to continue to fund their operations and to meet their settlement, customer and counterparty obligations, thereby enabling FINRA to more effectively evaluate these firms' liquidity and funding profiles and to identify higher risk firms. In particular, the information would facilitate FINRA's efforts to distinguish among firms that may have similar balance sheets but very different liquidity risk profiles that could impact their ability to fund their operations during stress scenarios.[6]

Amendments to FINRA Rule 4521

The SEC approved Rule 4521 as part of FINRA's new, consolidated financial responsibility rules in 2009.[7] The rule provides FINRA authority to request information from firms to carry out its surveillance and examination responsibilities. Paragraph (c) of the rule currently requires each carrying or clearing firm to notify FINRA in writing, no more than 48 hours after its tentative net capital as computed pursuant to SEA Rule 15c3-1 has declined 20 percent or more from the amount reported in its most recent FOCUS Report or, if later, the most recent such notification filed with FINRA.

Under the proposal, additional notification requirements would be applied to the same firms that would be subject to the SLS (that is, unless otherwise permitted by FINRA in writing, each carrying or clearing firm with $25 million or more in total credits, as determined pursuant to the customer reserve formula computation as set forth in SEA Rule 15c3-3 Exhibit A, and each firm 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 most recently filed FOCUS Report).[8] Specifically, the specified firms would be required to notify FINRA in writing, no more than 48 hours after:

- the firm becomes aware of a loss of access to secured funding through repurchase agreements, and where such loss, excluding funding collateralized by U.S. Treasury Securities,[9] or funding collateralized by securities issued by a U.S. Government Agency[10] or Government-Sponsored Enterprise (GSE),[11] in the aggregate, across all counterparties, represents 20 percent or more of the highest amount borrowed through such contracts within a 35 rolling calendar day period;
- the firm becomes aware of a loss of access to secured funding through securities loans, and where such loss, excluding funding collateralized by U.S. Treasury Securities, or funding collateralized by securities issued by a U.S. Government Agency or GSE, in the aggregate, across all counterparties, represents 20 percent or more of the highest amount borrowed through such contracts within a 35 rolling calendar day period;
- any one of the firm's five largest repurchase agreement counterparties or any one of the firm's five largest securities loan counterparties increases collateral haircuts on the counterparty's repurchase agreements or securities loan contracts with the firm, excluding funding collateralized by U.S. Treasury Securities, or funding collateralized by securities issued by a U.S. Government Agency or GSE, by 20 percent or more within a 35 rolling calendar day period;
- any one of the firm's five largest repurchase agreement counterparties, excluding funding collateralized by U.S. Treasury Securities, or funding collateralized by securities issued by a U.S. Government Agency or GSE, initiates termination of outstanding repurchase contracts prior to maturity, initiates the option not to renew or rollover the contract, or reduces access to undrawn or unused financing through repurchase contracts by 20 percent or more from the highest amount borrowed through such counterparty within a 35 rolling calendar day period;

- any one of the firm's five largest securities loan counterparties, excluding funding collateralized by U.S. Treasury Securities, or funding collateralized by securities issued by a U.S. Government Agency or GSE, initiates termination of securities loaned contracts prior to maturity, or reduces access to financing through securities loans by 20 percent or more of the highest amount borrowed through such counterparty within a 35 rolling calendar day period;
- the firm becomes aware of a reduction in or termination of committed or uncommitted lines of credit from banks, whether secured or unsecured, by 20 percent or more within a 35 rolling calendar day period;
- the firm triggers a material adverse change clause in any contract containing such clause, including events of acceleration or default, provided that the notification required pursuant to the rule shall be required within 48 hours after the expiration of any applicable cure period without remedy; or
- (only for firms that, pursuant to Rule 4210(g), have received approval from FINRA, or the firm's DEA if other than FINRA, to establish a portfolio margin methodology for eligible participants) the total change in the firm's customer margin balances, or decrease in the firm's free credit balances, in the gross aggregate, is greater than or equal to five percent or $5 billion in one business day, whichever is lower. For purposes of this requirement, the daily customer margin balances and free credit balances would be as determined pursuant to current paragraphs (d)(3)(A) and (d)(3)(B) of the rule.[12]

These notification requirements should enable FINRA to be promptly alerted by a firm whose ability to fund its operations has been reduced significantly within a short period of time. FINRA believes that the notifications are consistent with the types of events or conditions that many firms currently monitor for as part of prudent funding and liquidity risk management programs. Further, the notifications dovetail with the reporting that the specified firms would provide pursuant to the proposed SLS, as discussed above.

Impact on Market Participants and Request for Comment on the Proposal

The purpose of the proposed SLS is to provide FINRA with more detailed information about the specified firms' liquidity profiles than what is reflected on the current FOCUS Reports. This will enable FINRA to more effectively assess firms' ability to meet their settlement, customer and counterparty obligations and to differentiate between high and low risk firms by analyzing firm-specific risk factors. The primary anticipated net benefit would be that FINRA is provided a more granular level of detail on firms' funding sources such as term or maturity information, collateral quality, haircuts and use of secured versus unsecured financing, so that FINRA can assess whether firms possess adequate liquidity pools to fund their daily operations without relying on relatively less stable sources such as short-term unsecured loans or borrowing against customer collateral.

A potential significant benefit of this proposal may also arise from the information that can be generated on the interconnectedness of firms through significant counterparty exposure, which is a key component in FINRA's efforts to effectively monitor liquidity and funding risks as a part of its regulatory programs.

FINRA estimates that, based on the quarterly FOCUS data from 2016, approximately 110 firms, of which approximately half are part of a bank holding company, would be required to file the SLS under the proposal, though the actual number may fluctuate from month to month as a firm will not be required to file the SLS for any month where the firm does not meet the specified thresholds. Based on discussions with a select number of firms, FINRA does not expect the filing of the SLS to create significant direct compliance costs for these firms, as the information required to complete the SLS should be readily available to the firms. However, firms may potentially incur costs associated with processing data to compute certain items on the SLS.

Similarly, the new notification requirements in the proposed amendments to FINRA Rule 4521 are expected to cause minimal direct burdens on firms that are subject to the SLS, as FINRA believes that firms already monitor events that trigger notification to FINRA as a part of funding and liquidity risk management programs. Some level of one-time direct costs may be incurred by firms that establish automated monitoring tools to comply with the rule. However, to the extent that firms and liquidity providers alter their demand and supply for funding as a result of the proposal, there might be an indirect impact on competition in the funding markets. Firms may choose to diversify their counterparties to mitigate counterparty risk and to report less concentration of counterparties in the SLS. As a result, current counterparties would have to search for other firms that demand funding. Similarly, liquidity providers may potentially shift their client base from specified FINRA firms, to non-specified FINRA firms or to non-firms, to avoid being reported as a counterparty on the SLS. Such change in behavior is expected to be more likely for firms and liquidity providers that are at the margin with respect to the reporting thresholds. These effects may lead to greater search costs or funding costs for some impacted firms.

As discussed above, FINRA is seeking comment on all aspects of the proposed new SLS and the proposed notification amendments to Rule 4521, including the impact of the proposal on market participants.

Request for Comment with Regard to the Proposed SLS

- Do the items on the proposed SLS sufficiently capture the material secured and unsecured exposures of firms that would be subject to reporting?
- Are the proposed thresholds for firms that would be required to report under the proposed SLS appropriate? Are there alternative thresholds that would be more effective in capturing the liquidity risk profiles of firms?

- Are the proposed thresholds for the activities that would be required to be reported under the proposed SLS appropriate? What other, if any, information should FINRA consider capturing in order to meet its goals? Should FINRA consider any changes to the proposed items to increase the efficiency or reduce the costs of compliance while maintaining FINRA's ability to meet its goals?
- Is the proposed SLS expected to create significant compliance costs, including data collection and processing costs, for the impacted firms? If so, please provide information about these costs, including their potential magnitude, cost drivers that might differ among firms based on their business or business model, and ways that FINRA could mitigate these costs through the design of the collection or reporting mechanism.
- Are there additional costs for firms that are part of a bank holding company, stemming from potential discrepancies between the computation and reporting of items on the proposed SLS and other regulatory forms?
- To what extent do firms report substantially the same information to other regulators today? Do the proposed SLS items overlap with or differ from items that are reported to other regulators? Should any changes be made to the proposed SLS? If so, why?
- What are the potential impacts of the proposed SLS on counterparties? Are some counterparties more likely to be impacted by the proposed requirements than others?
- The proposed SLS will require firms to report the gross contract value of all reverse repurchase and repurchase agreements by collateral type, including all intercompany and third party agreements. Should FINRA exclude from the SLS reverse repurchase contracts where the collateral is used to satisfy the SEA Rule 15c3-3 reserve deposit?
- Are there any other economic impacts or competitive effects of the proposed SLS?

Request for Comment with Regard to the Proposed Amendments to FINRA Rule 4521

- Under the proposed amendments to Rule 4521, is the specified 35 rolling calendar day timeframe appropriate? Would use of a fixed time period, such as the most recent month-end date or most recently filed report, be more operationally feasible or more cost effective to implement than use of the highest open amount in a rolling period? If yes, would use of a fixed date cause the rule to be less effective?
- Should the proposed notification requirement with respect to margin and free credit balances exclude changes resulting from the firm sweeping customer funds to a bank or money market sweep? Should there be other exclusions?
- The proposed amendments to Rule 4521 include specified notification requirements with respect to any of the firm's five largest repurchase agreement counterparties or five largest securities loan counterparties. Are the specified requirements appropriate? Why? If not, why not?

- The proposed amendments include specified reporting requirements when a firm triggers a material adverse change clause. Are the specified requirements appropriate? Should there be any exclusions from the requirement? Why? If not, why not?

Additional Request for Comment with Regard to the Impact of the Proposal

- Has FINRA identified the appropriate events to trigger notification of a material change in liquidity and funding risk? Are there other events that FINRA should consider?
- Instead of listing specific events that trigger notification, should FINRA use different notification triggers? If yes, what should the different triggers be? What are the benefits and drawbacks of such different triggers?
- Are the proposed thresholds that would trigger notification to FINRA relevant and do they appropriately address material changes in liquidity and funding risks? Are there alternative thresholds that FINRA should consider?
- Do the proposed notifications with respect to secured and unsecured funding sources appropriately address the sources of funding risk? Are there other unsecured financing sources and collateral types that FINRA should consider for notification events?
- Do impacted firms currently monitor events that may potentially trigger notification to FINRA? How likely are firms to change their risk management practices due to the proposed notification requirements?
- Are the proposed notification requirements with respect to liquidity and funding events likely to impact the supply and demand for funding? Specifically, are impacted firms likely to alter their behavior, collateral management and choice of counterparties in the funding markets?
- Are there any other economic impacts or competitive effects of the proposed notification requirements?

Endnotes

1. FINRA will not edit personal identifying information, such as names or email addresses, from submissions. Persons should submit only information that they wish to make publicly available. *See NTM 03-73* (November 2003) (NASD Announces Online Availability of Comments) for more information.

2. *See* SEA Section 19 and rules thereunder. After a proposed rule change is filed with the SEC, the proposed rule change generally is published for public comment in the *Federal Register*. Certain limited types of proposed rule changes, however, take effect upon filing with the SEC. *See* SEA Section 19(b)(3) and SEA Rule 19b-4.

3. *See, e.g.*, Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States (January 2011).

4. *See Regulatory Notice 10-57* (November 2010) (Risk Management) and *Regulatory Notice 15-33* (September 2015) (Liquidity Risk). However, even prior to the financial crisis, FINRA noted the importance of risk management practices. *See, e.g., Notice to Members 99-92* (November 1999) (Risk Management Practices) (setting forth a joint statement by the SEC, NASD and NYSE on broker-dealer risk management practices). FINRA has also discussed liquidity risk in its recent Annual Regulatory and Examination Priorities Letters.

5. Under the proposal, the SLS must be filed within 22 business days after the end of each month. The SLS need not be filed for any period where the firm does not meet the $25 million or $1 billion thresholds.

6. Upon receiving comment on the proposed SLS, FINRA proposes to file the SLS with the SEC pursuant to Rule 4524. Rule 4524 provides that, as a supplement to filing FOCUS reports required pursuant to SEA Rule 17a-5 and FINRA Rule 2010, each member, as FINRA shall designate, shall 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. The rule provides that the content of such schedules or reports, their format, and the timing and the frequency of such supplemental filings shall be specified in a *Regulatory Notice* (or similar communication) issued pursuant to the rule. The rule further provides that FINRA shall file with the SEC pursuant to Section 19(b) of the Exchange Act the content of any such *Regulatory Notice* (or similar communication) issued pursuant to the rule.

7. *See Regulatory Notice 09-71* (December 2009) (SEC Approves Consolidated FINRA Rules Governing Financial Responsibility).

8. Supplementary Material .01 of Rule 4521 provides that, for purposes of the rule, all requirements that apply to a member that clears or carries customer accounts shall also apply to any member that, operating pursuant to the exemptive provisions of SEA Rule 15c3-3(k)(2)(i), either clears customer transactions pursuant to such exemptive provisions or holds customer funds in a bank account established thereunder. By way of clarification, FINRA notes that firms otherwise subject to the rule by virtue of Supplementary Material .01 would not be subject to the new requirements if they do not meet the specified $25 million or $1 billion thresholds.

9. FINRA Rule 6710(p) defines "U.S. Treasury Security" to mean "a security issued by the U.S. Department of the Treasury to fund the operations of the federal government or to retire such outstanding securities."

10. FINRA Rule 6710(k) defines ''agency'' to mean a United States executive agency as defined in 5 U.S.C. 105 that is authorized to issue debt directly or through a related entity, such as a government corporation, or to guarantee the repayment of principal or interest of a debt security issued by another entity. The term excludes the U.S. Department of the Treasury in the exercise of its authority to issue U.S. Treasury Securities as defined under FINRA Rule 6710(p). Under 5 U.S.C. 105, the term ''executive agency'' is defined to mean an ''Executive department, a Government corporation, and an independent establishment.''

11. FINRA Rule 6710(n) defines GSE to have the meaning set forth in 2 U.S.C. 622(8). Under 2 U.S.C. 622(8), a GSE is defined, in part, to mean a corporate entity created by a law of the United States that has a Federal charter authorized by law, is privately owned, is under the direction of a board of directors, a majority of which is elected by private owners, and, among other things, is a financial institution with power to make loans or loan guarantees for limited purposes such as to provide credit for specific borrowers or one sector and raise funds by borrowing (which does not carry the full faith and credit of the Federal Government) or to guarantee the debt of others in unlimited amounts.

12. Paragraphs (d)(3)(A) and (d)(3)(B) address free credit balances and margin balances for purposes of specified monthly reporting requirements under current paragraph (d) of Rule 4521.

Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

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4000. FINANCIAL AND OPERATIONAL RULES

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4520. Financial Records and Reporting Requirements

4521. Notifications, Questionnaires and Reports

(a) Each carrying or clearing member shall submit to FINRA, or its designated agent, at such times as may be designated, or on an ongoing basis, in such form and within such time period as may be prescribed, such financial and operational information regarding the member or any of its correspondents as FINRA deems essential for the protection of investors and the public interest.

(b) Every member approved by the SEC pursuant to SEA Rule 15c3-1 to use the alternative method of computing net capital contained in Appendix E to that Rule shall file such supplemental and alternative reports as may be prescribed by FINRA.

(c)(1) Each carrying or clearing member shall notify FINRA in writing, no more than 48 hours after its tentative net capital as computed pursuant to SEA Rule 15c3-1 has declined 20 percent or more from the amount reported in its most recent FOCUS Report or, if later, the most recent such notification filed with FINRA. For purposes of this paragraph, "tentative net capital as computed pursuant to SEA Rule 15c3-1" shall exclude withdrawals of capital previously approved by FINRA.

(2) Unless otherwise permitted by FINRA in writing, each carrying or clearing member with $25 million or more in total credits, as determined pursuant to the customer reserve formula computation as set forth in SEA Rule 15c3-3 Exhibit A, and each member whose aggregate amount outstanding under repurchase agreements, securities loans contracts and bank loans is equal to or greater than $1 billion, as reported on the member's most recently filed FOCUS Report, shall notify FINRA in writing, no more than 48 hours after:

(A) the member becomes aware of a loss of access to secured funding through repurchase agreements, and where such loss, excluding funding collateralized by U.S. Treasury Securities, or funding collateralized by securities issued by a U.S. Government Agency or Government-Sponsored Enterprise, in the aggregate, across all

counterparties, represents 20 percent or more of the highest amount borrowed through such contracts within a 35 rolling calendar day period;

(B) the member becomes aware of a loss of access to secured funding through securities loans, and where such loss, excluding funding collateralized by U.S. Treasury Securities, or funding collateralized by securities issued by a U.S. Government Agency or Government-Sponsored Enterprise, in the aggregate, across all counterparties, represents 20 percent or more of the highest amount borrowed through such contracts within a 35 rolling calendar day period;

(C) any one of the member's five largest repurchase agreement counterparties or any one of the member's five largest securities loan counterparties increases collateral haircuts on the counterparty's repurchase agreements or securities loan contracts with the member, excluding funding collateralized by U.S. Treasury Securities, or funding collateralized by securities issued by a U.S. Government Agency or Government-Sponsored Enterprise, by 20 percent or more within a 35 rolling calendar day period;

(D) any one of the member's five largest repurchase agreement counterparties, excluding funding collateralized by U.S. Treasury Securities, or funding collateralized by securities issued by a U.S. Government Agency or Government-Sponsored Enterprise, initiates termination of outstanding repurchase contracts prior to maturity, initiates the option not to renew or rollover the contract, or reduces access to undrawn or unused financing through repurchase contracts by 20 percent or more from the highest amount borrowed through such counterparty within a 35 rolling calendar day period;

(E) any one of the member's five largest securities loan counterparties, excluding funding collateralized by U.S. Treasury Securities, or funding collateralized by securities issued by a U.S. Government Agency or Government-Sponsored Enterprise, initiates termination of securities loaned contracts prior to maturity, or reduces access to financing through securities loans by 20 percent or more of the highest amount borrowed through such counterparty within a 35 rolling calendar day period;

(F) the member becomes aware of a reduction in or termination of committed or uncommitted lines of credit from banks, whether secured or unsecured, by 20 percent or more within a 35 rolling calendar day period;

(G) the member triggers a material adverse change clause in any contract containing such clause, including events of acceleration or default, provided that the notification required pursuant to this Rule shall be required within 48 hours after the expiration of any applicable cure period without remedy; or

(H) the total change in the member's customer margin balances, or decrease in the member's free credit balances, in the gross aggregate, is greater than or equal to five percent or $5 billion in one business day, whichever is lower; provided, however, that paragraph (c)(2)(H) of this Rule shall apply to members that, pursuant to Rule 4210(g), have received approval from FINRA, or the member's DEA if other than FINRA, to establish a portfolio margin methodology for eligible participants. For purposes of this paragraph (c)(2)(H), the daily customer margin balances and free credit balances shall be as determined pursuant to paragraphs (d)(3)(A) and (d)(3)(B) of this Rule.

(d)(1) Unless otherwise permitted by FINRA in writing, members carrying margin accounts for customers are required to submit, on a settlement date basis, the information specified in paragraphs (d)(2)(A) and (d)(2)(B) of this Rule as of the last business day of the month. If a member has no information to submit, a report should be filed with a notation thereon to that effect. Reports are due as promptly as possible after the last business day of the month, but in no event later than the sixth business day of the following month. Members shall use such form as FINRA may prescribe for these reporting purposes.

(2) Each member carrying margin accounts for customers shall submit reports containing the following customer information:

(A) Total of all debit balances in securities margin accounts; and

(B) Total of all free credit balances in all cash accounts and all securities margin accounts.

(3) For purposes of this paragraph (d):

(A) Only free credit balances in cash and securities margin accounts shall be included in the member's report. Balances in short accounts and in special memorandum accounts (see Regulation T of the Board of Governors of the Federal Reserve System) shall not be considered as free credit balances.

(B) Reported debit or credit balance information shall not include the accounts of other FINRA members, or of the associated persons of the member submitting the report where such associated person's account is excluded from the definition of customer pursuant to SEA Rule 15c3-3.

(e) Unless a specific temporary extension of time has been granted, there shall be imposed upon each member required to file any report, notification or information pursuant to this Rule, a late fee as set forth in Schedule A Section 4(g)(1) to the FINRA By-Laws.

(f) For purposes of this Rule, any report filed pursuant to this Rule containing material inaccuracies shall be deemed not to have been filed until a corrected copy of the report has been resubmitted.

• • • Supplementary Material: ----------

.01 Members Operating Pursuant to the Exemptive Provisions of SEA Rule 15c3-3(k)(2)(i). For purposes of this Rule, all requirements that apply to a member that clears or carries customer accounts shall also apply to any member that, operating pursuant to the exemptive provisions of SEA Rule 15c3-3(k)(2)(i), either clears customer transactions pursuant to such exemptive provisions or holds customer funds in a bank account established thereunder.

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FINRA FORM SLS

Supplemental Report to FOCUS REPORT
Supplemental Liquidity Schedule ("SLS")
(Please read instructions before completing form)

NAME OF BROKER-DEALER			**SEC FILE NO.**
ADDRESS OF PRINCIPAL PLACE OF BUSINESS			FIRM ID NO.
(No. and Street)			FOR PERIOD ENDING (MM/DD/YY)
(City)	(State)	(Zip Code)	
NAME OF PERSON COMPLETING THIS REPORT TELEPHONE NO. OF PERSON COMPLETING THIS REPORT			

All amounts should be reported in thousands.

REVERSE REPURCHASE AND REPURCHASE AGREEMENTS	**Reverse Repurchase (000s)**	**Repurchase (000s)**
1. U.S. Treasury Securities		
a. Open and Overnight	$	$
b. Term	$	$
Weighted Average Maturity	_____	_____
c. Forward Starting	$	$
2. U.S. Government Agency & Government-Sponsored Enterprise Securities		
a. Open and Overnight	$	$
b. Term	$	$
Weighted Average Maturity	_____	_____
c. Forward Starting	$	$
3. Equity Securities		
a. Open and Overnight	$	$
b. Term	$	$
Weighted Average Maturity	_____	_____
c. Forward Starting	$	$
4. Investment Grade Corporate Obligations		
a. Open and Overnight	$	$
b. Term	$	$
Weighted Average Maturity	_____	_____
c. Forward Starting	$	$
5. Other Collateral		
a. Open and Overnight	$	$
b. Term	$	$
Weighted Average Maturity	_____	_____
c. Forward Starting	$	$
6. Total at Tri-Party Custodian or DTCC	$	$
7. TOTAL	$	$

Top 5 Counterparties: Reverse Repurchase and Repurchase Agreements			
Reverse Repurchase Counterparty Name	**Contract Value (000s)**	**Repurchase Counterparty Name**	**Contract Value (000s)**
1.	$	1.	$
2.	$	2.	$
3.	$	3.	$
4.	$	4.	$
5.	$	5.	$

SECURITIES BORROWED AND SECURITIES LOANED	Securities Borrowed (000s)	Securities Loaned (000s)
1. **U.S. Treasury Securities**		
a. Open and Overnight	$	$
b. Term	$	$
Weighted Average Maturity	_____	_____
c. Forward Starting	$	$
2. **U.S. Government Agency & Government-Sponsored Enterprise Securities**		
a. Open and Overnight	$	$
b. Term	$	$
Weighted Average Maturity	_____	_____
c. Forward Starting	$	$
3. **Equity Securities**		
a. Open and Overnight	$	$
b. Term	$	$
Weighted Average Maturity	_____	_____
c. Forward Starting	$	$
4. **Investment Grade Corporate Obligations**		
a. Open and Overnight	$	$
b. Term	$	$
Weighted Average Maturity	_____	_____
c. Forward Starting	$	$
5. **Other Collateral**		
a. Open and Overnight	$	$
b. Term	$	$
Weighted Average Maturity	_____	_____
c. Forward Starting	$	$
6. **Total Guaranteed by a CCP**	$	$
7. **TOTAL**	$	$

Top 5 Counterparties: Securities Borrowed and Securities Loaned			
Securities Borrowed Counterparty Name	**Contract Value (000s)**	**Securities Loaned Counterparty Name**	**Contract Value (000s)**
1.	$	**1.**	$
2.	$	**2.**	$
3.	$	**3.**	$
4.	$	**4.**	$
5.	$	**5.**	$

BANK LOAN AND OTHER CREDIT FACILITIES					
	Total (000s)	**Affiliate**		**Non-Affiliate**	
		Committed (000s)	**Uncommitted (000s)**	**Committed (000s)**	**Uncommitted (000s)**
1. U.S. Treasury, U.S. Government Agency & Government-Sponsored Enterprise Securities					
a. Open and Overnight	**$**	**$**	**$**	**$**	**$**
b. Term	**$**	**$**	**$**	**$**	**$**
2. Equity Securities					
a. Open and Overnight	**$**	**$**	**$**	**$**	**$**
b. Term	**$**	**$**	**$**	**$**	**$**
3. Other Collateral					
a. Open and Overnight	**$**	**$**	**$**	**$**	**$**
b. Term	**$**	**$**	**$**	**$**	**$**
4. Unused Portion of Secured Credit Facilities	**$**	**$**	**$**	**$**	**$**
5. Unsecured Credit Facilities					
a. Drawn Amounts	**$**	**$**	**$**	**$**	**$**
b. Undrawn Amounts	**$**	**$**	**$**	**$**	**$**

TOTAL AVAILABLE COLLATERAL (Free Box)	
	Total Market Value
1. U.S. Treasury Securities	$

MARGIN LOANS		
		Balance (000s)
1. Demand Loans		**$**
2. Term Loans - Drawn		**$**
a. Weighted Average Maturity of Term Loans	_____	
3. Term Loans - Undrawn		**$**

COLLATERAL SECURING MARGIN LOANS		
a. Top 5 Equity Securities		
CUSIP #	**ISSUER**	**Market Value (000s)**
1.		**$**
2.		**$**
3.		**$**
4.		**$**
5.		**$**

b. Top 5 Fixed Income Securities (excluding U.S. Treasury, Government Agency & Government-Sponsored Enterprise Securities)		
CUSIP	**ISSUER**	**Market Value (000s)**
1.		**$**
2.		**$**
3.		**$**
4.		**$**
5.		**$**

DEPOSITS AT CLEARING ORGANIZATIONS

	Amount Required (000s)	Amount Posted (000s)	Proprietary	Largest Single Intra-Month Call (000s)	Date
1. DTCC (total)	$	$	$	$	
a. NSCC	$	$	$	$	
b. FICC	$	$	$	$	
2. OCC	$	$	$	$	
3. CME	$	$	$	$	
4. ICE	$	$	$	$	
5. Other>10% of Total	$	$	$	$	

CASH AND SECURITIES RECEIVED AND DELIVERED ON DERIVATIVE TRANSACTIONS NOT CLEARED THROUGH A CCP

Cash and Securities Delivered In to Collateralize Receivables

Counterparty Name	Affiliate (Y/N)	Total Cash (000s)	Total Securities
1.		$	$
2.		$	$
3.		$	$
4.		$	$
5.		$	$

Cash and Securities Delivered Out to Collateralize Payables

Counterparty Name	Affiliate (Y/N)	Total Cash (000s)	Total Securities
1.		$	$
2.		$	$
3.		$	$
4.		$	$
5.		$	$

SUPPLEMENTAL SCHEDULE TO FOCUS REPORT
Supplemental Liquidity Schedule

GENERAL INSTRUCTIONS

The Supplemental Liquidity Schedule ("SLS") is intended to provide more detailed information about a member's liquidity profile than what is reflected on the FOCUS Report (Part II, Part IIA or Part II CSE, as appropriate). Unless otherwise permitted by FINRA in writing, the SLS is required to be filed by each carrying or clearing FINRA member with $25 million or more in total credits, as determined pursuant to the customer reserve formula computation as set forth in SEA Rule 15c3-3 Exhibit A, and by each FINRA member whose aggregate amount outstanding under repurchase agreements, securities loans contracts and bank loans is equal to or greater than $1 billion, as reported on the member's most recently filed FOCUS report.

The SLS must be filed within 22 business days after the end of each month. A member need not file the SLS for any period where the member does not meet the $25 million or $1 billion thresholds.

SPECIFIC INSTRUCTIONS

Note: For explanations of the types of securities to be included in the requested line items of the SLS, please refer to "Explanation of Terms" on pages 3 and 4 of these instructions.

Reverse Repurchase and Repurchase Agreements

Report the gross contract value of all reverse repurchase and repurchase agreements by collateral type, including all intercompany and third party agreements. Exclude intracompany agreements between desks within the same legal entity. Report collateral upgrade transactions based on the contract type for each leg of the transaction (i.e., report Master Repurchase Agreements ("MRA") contracts in the Reverse Repurchase and Repurchase Agreements section and Master Stock Loan Agreement ("MSLA") contracts in the Securities Borrowed and Securities Loaned section, as discussed further below).

Compute the "Weighted Average Maturity" on term agreements only (i.e., exclude open and overnights). For contracts that contain an option feature that permits the counterparty to choose not to renew with an agreed-upon notice period ("evergreen contracts"), use the earliest possible close date.

Report in "Other Collateral" the gross contract value of all reverse repurchase and repurchase agreements not otherwise reported in the previous product categories.

For "Total at Tri-Party Custodian or DTCC," report the gross contract value of all reverse repurchase and repurchase agreements where the collateral is held at a tri-party custodian or at Depository Trust & Clearing Corporation (DTCC), including DTCC's subsidiary Fixed Income Clearing Corporation (FICC).

For "Top 5 Counterparties: Reverse Repurchase and Repurchase Agreements," report the top 5 counterparties after netting (in accordance with ASC 210-20-45-1 and ASC 210-20-45-11). Where contracts have been novated to FICC, FICC should be reported as the counterparty. Where the counterparty contracted with the member through an agent (Agency Repo), report the name of the underlying principal as counterparty.

Securities Borrowed and Securities Loaned

Report the gross contract value of all securities borrowed and securities loaned agreements by collateral type, including all intercompany and third party agreements. Exclude intracompany agreements between desks within the same legal entity. Report collateral upgrade transactions based on the contract type for each leg of the transaction (i.e., report Master Repurchase Agreement contracts in the Reverse Repurchase and Repurchase Agreements section and Master Securities Lending Agreement contracts in the Securities Borrowed and Securities Loaned section).

Compute the "Weighted Average Maturity" on term agreements only (i.e., exclude open and overnight contracts).

Report in "Other Collateral" the gross contract value of all securities borrowed and securities loaned agreements not otherwise reported in the previous product categories, if applicable.

"Total Guaranteed by a CCP" shall include the gross contract value of all securities borrowed and securities loaned agreements guaranteed by a Central Clearing Counterparty.

"Top 5 Counterparties: Securities Borrowed and Securities Loaned" shall include the Top 5 Counterparties after netting (in accordance with ASC 210-20-45-1 and ASC 210-20-45-11). Where the counterparty contracted with the member through an agent bank (Agency Lending), report the name of the underlying principal as the counterparty.

Bank Loan and Other Credit Facilities

Report the dollar value of bank loan and other credit facilities (for example, subordinated loans, liens of credit, secured demand notes, etc.) by collateral type for secured lines, separating affiliated sources from unaffiliated sources.

For purposes of this SLS, a committed line of credit is one where the lender is contractually committed to lend to the member, provided the member has not violated any conditions or covenants in the terms of the contract.

Total Available Collateral (Free Box)

Report U.S. Treasury Securities (see "Explanation of Terms") in the member's possession or control that can be re-hypothecated, are otherwise unencumbered and are not required to be returned upon demand of the owner.

Margin Loans

Report margin loans, including non-purpose loans extended by the member. For purposes of this SLS, "Demand" loans are those that are callable for immediate repayment. "Term" loans are those that are not callable for immediate repayment and have stated maturity dates.

Collateral Securing Margin Loans

For "Top 5 Equity Securities," report the top five equity securities by total market value, collateralizing all margin loans.

For "Top 5 Fixed Income Securities," report the top five fixed income securities, excluding U.S. Treasury, Government Agency & Government-Sponsored Enterprise Securities, collateralizing all margin loans.

Deposits at Clearing Organizations

Report the total amount required to be on deposit, as well as the total amount of cash and securities on deposit, at clearing organizations at the report date. The amount may include the clearing deposit, adequate assurance deposits, additional liquidity deposits, guarantee fund deposits, etc. In addition, report in this section the largest single call intra-month by the clearing organization.

For "Other>10% Total," report the total clearing deposit at any one clearing organization that is greater than 10% of the total amounts required and on deposit at all clearing organizations, if applicable.

Cash and Securities Received and Delivered on Derivative Transactions Not Cleared Through a CCP

Report cash and securities used to collateralize marks to market on derivative transactions that are not cleared through a central clearing counterparty ("CCP"). For purposes of this SLS, "derivatives transactions" include non-regular way settlement transactions (including To Be Announced ("TBA") securities and delayed delivery and settlement transactions) as well as swap contracts.

For "Cash and Securities Delivered In to Collateralize Receivables," report the top five counterparties with gross derivative mark-to-market receivables, by counterparty name, and identify whether the derivative counterparty is an affiliate.

For "Cash and Securities Delivered Out to Collateralize Payables," report the top five counterparties with gross derivative mark-to-market payables, by counterparty name, and identify whether the derivative counterparty is an affiliate.

EXPLANATION OF TERMS

U.S. Treasury Securities

Direct obligations of the U.S. Treasury, including but not limited to, bills, notes, bonds, Treasury Inflation-Protected Securities (TIPS), U.S. Treasury Strips (IO) or (PO), and Treasury floating rate notes.

U.S. Government Agency & Government-Sponsored Enterprise Securities

Securities issued by a United States federal agency, or a United States Government-Sponsored Enterprise, including agency securities guaranteed as to principal or interest by the U. S. government (e.g., GNMA securities).

Equity Securities

Preferred and common stocks, warrants and ETFs issued by any domestic or foreign issuer.

Investment Grade Corporate Obligations

Investment grade debt securities issued by any corporation, whether domestic or foreign. Corporate obligations include but are not limited to non-convertible, convertible, floating rate debt securities and ETNs.

Other Collateral

All other securities not otherwise included in the other categories.