

Regulatory Notice

13-05

Supplemental FOCUS Information

FINRA Requests Comment on a Proposed Supplemental Schedule for Inventory Positions

Comment Period Expires: February 25, 2013

Executive Summary

FINRA Rule 4524 (Supplemental FOCUS Information) 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. FINRA requests comment on one such proposed schedule, a supplemental schedule for inventory positions.

The text of the proposed supplemental schedule can be found at www.finra.org/notices/13-05.

Questions concerning this *Notice* should be directed to:

- ▶ Kris Dailey, Vice President, Risk Oversight & Operational Regulation, at (646) 315-8434; or
- ▶ Matthew E. Vitek, Assistant General Counsel, Office of General Counsel, at (202) 728-8156.

Action Requested

FINRA encourages all interested parties to comment on the proposal. Comments must be received by February 25, 2013.

Comments must be submitted through one of the following methods:

- ▶ emailing comments to pubcom@finra.org; or
- ▶ mailing comments in hard copy to:
Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

January 2013

Notice Type

- ▶ Request for Comment

Suggested Routing

- ▶ Compliance
- ▶ Finance
- ▶ Legal
- ▶ Operations
- ▶ Regulatory Reporting
- ▶ Senior Management

Key Topics

- ▶ FOCUS Reporting

Referenced Rules & Notices

- ▶ Rule 4524

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 Securities and Exchange Commission (SEC) by the FINRA Board of Governors, and then must be filed with the SEC pursuant to Section 19(b) of the Securities Exchange Act of 1934 (SEA).²

Background & Discussion

Pursuant to SEA Rule 17a-5, 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. In general, SEA Rule 17a-5 requires firms that clear transactions or carry customer accounts to file a FOCUS Report Part II, and requires firms that do not clear transactions or carry customer accounts to file a FOCUS Report Part IIA. However, firms that calculate net capital using Appendix E to SEA Rule 15c3-1 file a FOCUS Report Part II CSE, rather than FOCUS Report Part II.

Proposal

FINRA Rule 4524 (Supplemental FOCUS Information) 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. Pursuant to Rule 4524, FINRA is proposing to adopt a supplemental schedule to the FOCUS Report that would provide more detailed information of inventory positions held by firms. The proposed Supplemental Inventory Schedule (SIS) is identical to the Aggregate Securities and OTC Derivative Positions schedule from the FOCUS Report Part II CSE.

The proposal requires the SIS to be filed by all firms with inventory positions as of the end of the FOCUS Report reporting period, except for firms that: (1) have inventory positions consisting only of U.S. Treasury securities or money market mutual funds; or (2) file FOCUS Report Part II CSE. A firm that has inventory positions consisting only of U.S. Treasury securities or money market mutual funds would need to affirmatively indicate through functionality on the eFOCUS system that no filing is required for the reporting period. The proposed SIS would be due 20 business days after the end of a firm's FOCUS reporting period.

The proposed SIS is intended to capture more details of a firm's long and short inventory positions than what is captured on the FOCUS Report Part II and IIA. For example, FOCUS Report Part II and IIA require total inventory of securities sold short to be reported in aggregate, providing no information on the types of securities sold short by firms. In addition, long inventory is reported in categories that aggregate securities with different market risk profiles (*e.g.*, the Corporate Obligations category on the FOCUS Report Part II and Debt Securities on the FOCUS Report Part IIA includes single name corporate bonds, private label mortgage-backed securities and foreign debt holdings). The proposed SIS would provide FINRA with greater insights into the market risk associated with firms' inventory positions, and would enable FINRA staff to assess the related impact on firms' liquidity and funding needs.

Request for Comment

In addition to generally requesting comments, FINRA specifically requests comment on:

- ▶ whether firms that have inventory positions consisting only of U.S. Treasury securities should be exempt from the filing requirement; and
- ▶ whether there is a category of firms that should not be required to file the proposed SIS based upon a *de minimis* amount of inventory positions.

FINRA believes that the economic impact associated with completion of the proposed SIS would be minimal because the required information should be readily available to firms, as it is necessary for purposes of computing the haircut deductions required under the SEC's net capital rule. FINRA also believes that any operational burden imposed by the proposed SIS would be outweighed by the benefit to firms in allowing the staff to better understand a firm's market risk, which will lead to more focused and effective examinations. FINRA, however, specifically seeks comment on the economic impact of the proposed SIS, including costs incurred by a firm in determining whether it must file the SIS for each reporting period, completing the SIS and filing the schedule with FINRA. We request quantified comments where possible.

Following FINRA's receipt of comments on the proposed SIS in response to this *Notice*, in accordance with the requirements of Rule 4524, FINRA will file the proposed SIS with the SEC pursuant to Section 19(b) of the SEA.

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 [*Notice to Members 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.