

Attachment A

Below is the text of potential Rule 4610.

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4610. Liquidity Risk Management

(a) Members Subject to the Rule

This Rule shall apply to:

(1) each carrying member with \$25 million or more in free credit balances, as defined under SEA Rule 15c3-3(a)(8), as reported on the member's most recently filed FOCUS report;

(2) each member that carries, on behalf of another broker-dealer, customer accounts on an omnibus or fully disclosed basis; and

(3) 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.

(b) Requirement to Maintain Sufficient Liquidity on a Current Basis

Each member that is subject to this Rule must at all times have and maintain sufficient liquidity on a current basis.

Solely for purposes of this paragraph (b), a member that is controlled by a bank holding company that is subject to enhanced prudential regulation and complies with the Federal Reserve Board's most stringent liquidity risk management requirements (an "EPR firm"), is not presumed to have insufficient liquidity on a current basis when any of the conditions in (b)(1) through (b)(8) occur. Any other member is rebuttably presumed not to have sufficient liquidity while any of the following conditions occur:

(1) The member borrows funds from a non-bank affiliate, unless the member can demonstrate that the non-bank affiliate has sufficient and stable liquidity to maintain the loan for the time required to meet the member's funding obligations;

(2) The member borrows an amount in excess of 70% of its customer debit balances and such amount is secured by assets that are the property of its customers;

(3) The member performs a reserve formula computation on an ad-hoc basis more than once during a rolling 90-calendar day period for the purpose of making a withdrawal from its SEA Rule 15c3-3 Special Reserve Bank Account, or the member requests

extraordinary regulatory relief to make a withdrawal from such account without performing a reserve formula computation;

(4) The member's bank lines of credit, including bank loan facilities, other than intraday credit facilities at a settlement bank, are reduced by 50% or more of the total of such available bank lines of credit during a rolling 90-calendar day period;

(5) The member's total funding derived from securities financing arrangements is reduced by 50% or more during a rolling 90-calendar day period;

(6) The member's intra-day credit facility at a settlement bank is reduced by 50% or more of its aggregate settlement bank credit facilities, or the member's central clearing counterparty ("CCP") intra-day credit facility is reduced by 50% or more of its aggregate CCP credit facilities, during a rolling 90-calendar day period;

(7) The member is notified that it has lost or will lose access to the services of one or more of its settlement banks and the member has not replaced the settlement bank 90 days prior to the termination of such access; or

(8) The member is subject to revocation of a CCP membership or any material restrictions by a CCP or settlement bank. A material restriction by a CCP or settlement bank includes, without limitation, imposition of an increased minimum deposit or other requirement to post collateral due to firm-specific liquidity concerns or imposition of restrictions on withdrawing excess margin if such excess margin exceeds 10% of excess net capital.

(c) Liquidity Risk Management Program

Each member that is subject to this Rule shall establish and maintain a liquidity risk management program ("LRMP") including written policies and procedures that are reasonably designed to provide for assessment, management, and periodic review of risks to the member's liquidity. Each LRMP must:

(1) provide for the design and conduct of a liquidity stress test ("LST"), to be conducted no less than monthly for a projected rolling 30-calendar day period. The member's LST must be based upon reasonable, data-supported assumptions. For purposes of this Rule, a member's LST designed based on the assumptions set forth in Supplementary Material .02 of this Rule is presumed to be reasonable. The LST must clearly indicate whether the firm projects a liquidity shortfall at any point over the projected rolling 30-calendar day period; and

(2) include a written contingency funding plan ("CFP") that is reasonably designed to assist the member in mitigating materially adverse fluctuations in its liquidity. The CFP must meet the requirements set forth in Supplementary Material .03 of this Rule.

(d) Notification and Reporting

Each member that is subject to this Rule must:

(1) Notify FINRA within two business days after any of the conditions in paragraph (b)(1) through (b)(8) occur;

(2) If upon the occurrence of one of the conditions in paragraph (b)(1) through (b)(8) the member seeks to rebut the presumption that it does not have sufficient liquidity on a current basis, provide FINRA a written rebuttal with supporting evidence within five business days after the notification required under paragraph (d)(1);

(3) Provide FINRA, upon request, its written LRMP, the design and parameters used in conducting its LSTs and its CFP;

(4) Provide FINRA, upon request, in such form and manner as FINRA shall specify, the results of its LST(s); and

(5) Provide FINRA the results of any LST reflecting a liquidity shortfall during the projected rolling 30-calendar day period within two business days after the performance of such LST.

Paragraphs (d)(1) and (d)(2) of this Rule shall not apply to an EPR firm.

(e) Restriction or Suspension of Business

If FINRA determines that a member does not have sufficient liquidity on a current basis pursuant to paragraph (b) of this Rule, FINRA may issue a notice pursuant to Rule 9557 directing the member to take such measures as shall be necessary, including restricting or suspending all or part of its business, to restore sufficiency of the member's liquidity. The issuance of such notice shall be approved by FINRA's Executive Vice President charged with oversight for financial responsibility, or his or her written officer delegate.

••• **Supplementary Material:** -----

.01 Definitions. For purposes of this Rule:

(a) "Affiliate" means an entity or person that directly, or indirectly, controls or is controlled by, or is under common control with, a member that is subject to this Rule;

(b) "Sufficient liquidity on a current basis" means a member has available cash or liquid collateral sufficient to meet its funding obligations as they come due.

(c) "Liquidity shortfall" means the amount of cash and collateral required to fund the member's obligations exceeds the amount of cash and collateral available for use in funding its

obligations. For purposes of the LST, liquidity shortfall would include a projected liquidity shortfall during the rolling 30-calendar day period of the LST.

(d) “Control” (including the terms “controlling,” “controlled by” and “under common control with”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise.

.02 Liquidity stress testing assumptions.

<u>Category</u>	<u>Assumptions</u>
1 Clearing Deposit Requirements (e.g., NSCC, OCC, etc.)	Assume the clearing deposit requirement for the member is at the 99th percentile of the member’s total daily clearing deposit requirements as calculated or modeled, covering a 2-year period.
2 Customer Account Withdrawals (Cash)	Assume 5% of total free credit balances per day for 10 business days; firms that calculate reserve requirements daily may use a flat 10% of total free credit balances.
3 Product Haircuts: (Liquidation or Financing of Inventory)	
Listed Equities	20%
Unlisted Equities & High Yield Corporate Bonds	100%
Corporate Bonds (A Rated & Above) & Municipal Bonds	12%
Corporate Bonds (Investment Grade Rated Below A)	21%
US Treasuries	3%
Agency Pass-Through & Agency Debentures	6%
Securities Financing (Securities Borrow/Loan & Reverse Repo/Repo)	
4	
Term Mismatched Financing Transactions	Assume fulfillment of contractual terms. Consider stress to collateral haircuts as funding transactions mature.
Funding Source Reductions and Concentrations	Address (1) net reduction of active open funding sources with no current alternative funding arrangements as replacement (2) account for counterparty concentrations.
Evergreen Agreements	Assume same day term notice.

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| 5 On-Demand Margin Loans | Consider reduction or closeout of margin loans. |
| 6 Term Margin Loan Agreements | Assume fulfillment of contractual terms.

Assume delay of customer margin collections and any timing differences between customer margin sell-out policies and remediation, historical firm-specific stress levels, and historical market-specific stress levels. |
| 8 Customer Variation Margin Increases | Address potential for timing differences and delays in demand for liquidations of bank and money market sweep programs. |
| 9 Cash Sweep Obligations | Address triggering of material adverse change clauses of funding contracts due to a deterioration in financial condition. |
| 10 Material Adverse Change Clauses of Funding Contracts | Address funding of tri-party repo unwind, DTC debit cap limit, etc. |
| 11 Intra-day Funding Obligations | |

.03 CFP Requirements

A CFP pursuant to paragraph (c)(2) of this Rule must include the following:

(1) A designation of responsibilities with respect to the CFP and guidelines for the conditions under which the member may activate its CFP;

(2) The types of contingency funding sources (“CFS”) available to the member. Each CFS shall be appropriately discounted or excluded if its contract contains terms and conditions that make the availability of funding unlikely, or if restrictive covenants and material adverse changes clauses make contingency funding less likely to be available in a firm-specific stress event; and

(3) Identification of business restrictions and reductions that may be employed by the member to counteract a strain on its liquidity and identification of the conditions under which such restrictions and reductions may be employed, including, as appropriate and without limitation, a reduction of trading positions, limiting margin loans, calling for additional margin from customers, freezing new product initiatives, and ceasing new customer onboarding.

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