

Supplemental FOCUS Information

FINRA Requests Comment on Proposed Rule Requiring the Filing of Supplemental FOCUS Information and Proposed Supplementary Schedule to the Statement of Income (Loss) Page of FOCUS Report Parts II and IIA

Comment Period Expires: August 18, 2010

Executive Summary

FINRA requests comment on a proposed rule to require each member firm to file certain additional financial or operational schedules or reports to supplement SEC FOCUS Reports. FINRA further requests comment on one such proposed schedule, a supplement to the Statement of Income (Loss) page of FOCUS Report Parts II and IIA.

The text of proposed FINRA Rule 4524 (Supplemental FOCUS Information) is set forth in Attachment A. The proposed supplementary schedule for the Statement of Income (Loss) page of the FOCUS Report Parts II and IIA, including the proposed Operational Page, is set forth in Attachment B.

Questions concerning this *Notice* should be directed to:

- Kris Dailey, Vice President, Risk Oversight & Operational Regulation, at (646) 315-8434; or
- Susan DeMando Scott, Associate Vice President, Financial Operations Department, at (202) 728-8411.

July 2010

Notice Type

- Request for Comment

Suggested Routing

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

Key Topics

- FOCUS Reporting

Referenced Rules & Notices

- SEA Rule 17a-5
- FINRA Rule 2010

Action Requested

FINRA encourages all interested parties to comment on the proposal. Comments must be received by August 18, 2010.

Member firms and other interested parties can submit their comments using 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

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

Important Notes: The only comments that FINRA will consider are those submitted pursuant to the methods described above. All comments received in response to this *Notice* will be made available to the public on the FINRA Web site. Generally, FINRA will post comments on its site one week after the end of the comment period.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 approved by the SEC, following publication for public comment in the *Federal Register*.²

Background & Discussion

SEA Rule 17a-5 requires member firms to file with FINRA monthly and quarterly reports concerning their financial and operational status (FOCUS Reports). FOCUS Reports provide FINRA with valuable information regarding a member firm's business; however, FINRA believes that it can better discharge its regulatory obligations with the benefit of additional information that gives FINRA a more complete and detailed view of a member firm's business operations. FINRA, therefore, is requesting comment on a proposed rule that requires firms 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. The content of any future proposed schedules and reports, their formats and the frequency of such supplemental filings, would be specified in a future *Regulatory Notice* (or similar communication) to be filed with the SEC.

In connection with the proposed rule, FINRA is proposing a supplementary schedule to capture with more specificity information from the Statement of Income (Loss) page of the FOCUS Report Parts II and IIA. The forms currently in use do not contain sufficient detail of revenues earned or expenses incurred by product or other more specific categories, thereby driving firms to report much of their revenue and expense as “other” (miscellaneous). FINRA believes the expanded revenue and expense information on the proposed supplementary schedule would provide FINRA greater transparency into a member firm’s business activities and would better illuminate industry trends, allowing for more focused examinations. Many line items are not applicable to firms with limited product offerings, thereby reducing the burden of completing the form.

As part of the proposed supplementary schedule, FINRA would require additional information with respect to a member firm’s underwriting and/or selling group activities when revenue from unregistered offerings exceeds 10 percent of total revenue. Member firms that exceed the 10 percent threshold would need to complete the corresponding section of a new Operational Page that is referenced in the proposed supplementary schedule.

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 *NASD Notice to Members 03-73* (November 2003) (NASD Announces Online Availability of Comments) for more information.
- 2 Section 19 of the Securities Exchange Act of 1934 (SEA or Exchange Act) permits certain limited types of proposed rule changes to take effect upon filing with the SEC. The SEC has the authority to summarily abrogate these types of rule changes within 60 days of filing. See Exchange Act Section 19 and rules thereunder.

Attachment A

4524. Supplemental FOCUS Information

As a supplement to filing FOCUS reports required pursuant to SEA Rule 17a-5 and FINRA Rule 2010, each member 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 content of such schedules and reports, their formats, and the frequency of such supplemental filings shall be specified in a Regulatory Notice (or similar communication) issued pursuant to this Rule. FINRA shall file with the SEC any Regulatory Notice (or similar communication) issued pursuant to this Rule.

Attachment B

Proposed Statement of Income (Loss)										
Revenue										
	Net Gains or losses on Principal Trades (including trading, market-making and related hedges):									
	Equities, ETFs and Closed End Funds									
	U.S. Governments and Agencies									
	Foreign Sovereign debt									
	Corporate debt									
	Asset Backed Securities									
	Municipals									
	Foreign Exchange									
	Commodities									
	Listed Options									
	OTC Options									
	Derivatives, other than listed or unlisted options									
	Other									
	Capital Gains (Losses) on Firm Investments									
		Total net gain or loss								
	Commissions related to transactions in:									
	Equities, ETFs and Closed End Funds									
	U.S. Government and Agencies									
	Foreign Sovereign debt									
	Corporate debt									
	Asset Backed Securities									
	Municipals									
	Listed Options									
	Foreign Exchange									
	Commodities									
	Investment Company shares									
	Unit Investment Trusts									
	Annuities									
		Attributable to Variable Annuities								
		Attributable to Fixed Annuities								
	Other Insurance Based Products									
	Other									
		Total Commissions								
	Commodities related, other than commissions									
	Interest/rebate/dividend income:									
	Interest received on trading and investment accounts									
	Securities Borrowing									
	Reverse Repurchase transactions									
	Dividend Income									
	Margin Account interest									
	Other Interest Income									

		Compensation (including interest earned on customer bank sweep programs)							
		Fees earned on customer sweep programs to '40 Act Investments							
		Rebates earned including margin rebates							
		Total Interest/rebate/dividend income							
	Underwritings:								
		Income from Underwritings and selling group participations:							
		municipal offerings							
		All other Offerings							
		<i>In this section, "affiliate" is defined as in NASD Rule 2720(f)(1).</i>							
		registered equity offerings, other than self or affiliate offerings							
		registered debt offerings, other than self or affiliate offerings							
		registered equity offerings, self or affiliate offerings							
		registered debt offerings, self or affiliate offerings							
		<i>To extent revenue reflected in the four unregistered offerings fields below exceeds 10% of Total Revenue, complete the referenced Section on the Operational Page.</i>							
		unregistered equity offerings, other than self or affiliate offerings. Section 1							
		unregistered debt offerings, other than self or affiliate offerings. Section 2							
		unregistered equity offerings, self or affiliate offerings. Section 3							
		unregistered debt offerings, self or affiliate offerings. Section 4							
		Total Underwriting & Selling Group Compensation							
	Fee Income:								
		Investment Banking services/M&A Advisory							
		Account Management. Firm manages discretionary accounts:	Yes	No					
		Investment advisory (for dual BD/IA's)							
		Advisory fees (for dual SEC/CFTC members)							
		Research services							
		Rebates received from exchanges, ECNs, and ATSS							
		Earned under a service level agreement with affiliates							
		Earned under a service level agreement with 3rd parties							
		12b-1 Fees							
		Other Mutual Fund Revenue							
		Execution Services							
		Clearing Services							
		Administrative Fees							
		Other Fees							
		Total Fees							
		Other revenue (describe categories amounting to 10% or more of Total Revenue listed below)							
		1 description			amount:				
		2 description			amount:				
		3 description			amount:				
		Total Other Revenue							
		Total Revenue							

Expenses												
	Compensation Costs:											
		Compensation paid to producing associated persons										
		Guaranteed Payments to LLC Members & Limited Partners										
		Operational, administrative and clerical										
		Bonuses										
		All Other direct compensation costs										
		Total Compensation costs										
	Commission and Clearance Costs:											
		Floor brokerage commissions										
		Remittances paid to exchanges, ECNs, and ATSs										
		Execution										
		Clearance & settlement										
		Custody										
		Total Commission and Clearance costs paid to other entities										
	Interest/rebate costs:											
		Interest on bank loans										
		Interest on instruments where broker-dealer is the obligor (including subordination agreements)										
		Interest paid on customer balances										
		Securities loaned rebates and interest paid										
		Repurchase agreements										
		Other interest										
		Total interest/rebate costs										
	Costs incurred on behalf of affiliates or clients:											
		Business expenses of other broker-dealers										
		Business expenses of affiliates or subsidiaries										
		Soft dollar costs										
		Commission rebate/recapture										
		Total costs incurred on behalf of affiliates or clients										
	Fees Paid Under a Service Agreement to Outsourcing Providers:											
		To Third Parties										
		To Affiliates										
		Total Service Level Agreement Costs										
	Finder fees											
	Technology, data and communication costs											
	Research											
	Promotional fees											

	Occupancy costs										
	Depreciation and Amortization										
	Regulatory fees										
	Professional Fees										
	Litigation, settlement, restitution and rescission related costs										
	Losses in error accounts and bad debt costs										
	Insurance costs										
	Other expenses (describe categories amounting to 10% or more of Total Expenses listed below)										
		1	description			amount:					
		2	description			amount:					
		3	description			amount:					
			Total Other Expenses								
			Total Expenses								
	Pre-tax income/loss										
	Income taxes										
			federal income - current								
			federal income - deferred								
			other income taxes - current								
			other income taxes - deferred								
			Total income taxes								
	Extraordinary gains/losses (net of tax)										
	Cumulative effect of changes in accounting principles (net of any tax)										
			Net income/loss								

Operational Page

Firm Underwriting and Selling Group Participation

SECTION 1

RE: unregistered equity offerings, other than self or affiliate offerings

For each offering in which the firm participated in the Reporting Period, provide the following information.

If Firm engaged in more than five such offerings during the Reporting Period, list the five largest offerings in terms of total securities sold.

Full Name of Offering	Name of Issuer/Sponsor	Per Offering Memorandum, name of BD (other than one filing this FOCUS Report) to which issuer is affiliated.	Registration Exemption Relied Upon	Date of Issue	Minimum Offering Amount	Maximum Offering Amount	Type of Offering	Total Amount of Securities Sold During the Reporting Period	Total Number of Customers to whom securities were sold	Amount of Revenue Earned by Firm, if any, in conjunction with offering.	Scheduled Maturity Date of Offering	Per Offering Memorandum, % of Proceeds to be used by BD affiliated with issuer or its associated persons (APs) as either working capital, debt reduction or retirement, or credit facility extension, or otherwise directed to the BD or its APs.
(1)												
(2)												
(3)												
(4)												
(5)												

SECTION 2

RE: unregistered debt offerings, other than self or affiliate offerings

For each offering in which the firm participated in the Reporting Period, provide the following information.

If Firm engaged in more than five such offerings during the Reporting Period, list the five largest offerings in terms of total securities sold.

Full Name of Offering	Name of Issuer/Sponsor	Per Offering Memorandum, name of BD (other than one filing this FOCUS Report) to which issuer is affiliated.	Registration Exemption Relied Upon	Date of Issue	Minimum Offering Amount	Maximum Offering Amount	Type of Offering	Total Amount of Securities Sold During the Reporting Period	Total Number of Customers to whom securities were sold	Amount of Revenue Earned by Firm, if any, in conjunction with offering.	Scheduled Maturity Date of Offering	Per Offering Memorandum, % of Proceeds to be used by BD affiliated with issuer or its associated persons (APs) as either working capital, debt reduction or retirement, or credit facility extension, or otherwise directed to the BD or its APs.
(1)												
(2)												
(3)												
(4)												
(5)												

SECTION 3 RE: unregistered equity offerings, self or affiliate offerings

For each offering in which the firm participated in the Reporting Period, provide the following information.

If Firm engaged in more than five such offerings during the Reporting Period, list the five largest offerings in terms of total securities sold.

Full Name of Offering	Name of Issuer/Sponsor	Issuer's Affiliation to Broker/Dealer Filing this FOCUS Report	Registration Exemption Relied Upon	Date of Issue	Minimum Offering Amount	Maximum Offering Amount	Type of Offering	Total Amount of Securities Sold During the Reporting Period	Total Number of Customers to whom securities were sold	Amount of Revenue Earned by Firm, if any, in conjunction with offering.	Scheduled Maturity Date of Offering	% of Proceeds to be used by BD filing this FOCUS Report or its associated persons (APs) as either working capital, debt reduction or retirement, or credit facility extension, or otherwise directed to the BD or its APs.
(1)												
(2)												
(3)												
(4)												
(5)												

SECTION 4 RE: unregistered debt offerings, self or affiliate offerings

For each offering in which the firm participated in the Reporting Period, provide the following information.

If Firm engaged in more than five such offerings during the Reporting Period, list the five largest offerings in terms of total securities sold.

Full Name of Offering	Name of Issuer/Sponsor	Issuer's Affiliation to Broker/Dealer Filing this FOCUS Report	Registration Exemption Relied Upon	Date of Issue	Minimum Offering Amount	Maximum Offering Amount	Type of Offering	Total Amount of Securities Sold During the Reporting Period	Total Number of Customers to whom securities were sold	Amount of Revenue Earned by Firm, if any, in conjunction with offering.	Scheduled Maturity Date of Offering	% of Proceeds to be used by BD filing this FOCUS Report or its associated persons (APs) as either working capital, debt reduction or retirement, or credit facility extension, or otherwise directed to the BD or its APs.
(1)												
(2)												
(3)												
(4)												
(5)												