

Supplemental FOCUS Information

FINRA Requests Comment on Proposed Supplementary Schedule for Derivatives and Other Off-Balance Sheet Items

Comment Period Expires: June 4, 2012

Executive Summary

On February 9, 2012, the SEC approved FINRA Rule 4524 (Supplemental FOCUS Information), which 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.¹ FINRA requests comment on one such proposed schedule, a supplementary schedule for derivatives and other off-balance sheet items.

The proposed supplementary schedule for derivatives and other off-balance sheet items (including instructions to the form) is set forth in Attachment A.

Questions concerning this *Notice* should be directed to:

- ▶ Kris Dailey, Vice President, Risk Oversight & Operational Regulation (ROOR), at (646) 315-8434;
- ▶ Marshall Levinson, Vice President, ROOR, at (646) 315-8453; or
- ▶ Matthew E. Vitek, Assistant General Counsel, Office of General Counsel, at (202) 728-8156.

May 2012

Notice Type

- ▶ Request for Comment

Suggested Routing

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

Key Topics

- ▶ FOCUS Reporting

Referenced Rules & Notices

- ▶ FINRA Rule 4524

Action Requested

FINRA encourages all interested parties to comment on the proposal. Comments must be received by June 4, 2012.

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 website. Generally, FINRA will post comments as they are received.²

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).³

Background & Discussion

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 this rule, FINRA is proposing to adopt a supplemental schedule to capture important information that is not otherwise reported on certain firms' balance sheets. To that end, the proposal requires all carrying and clearing firms to file with FINRA a proposed Derivatives and Other Off-Balance Sheet Items Schedule (OBS) within 22 business days of the end of each calendar quarter.

In the aftermath of the financial crisis, FINRA began to closely monitor firms' levels of leverage and available liquidity to meet their funding needs and began to collect certain additional information from certain carrying and clearing firms with regard to their proprietary positions, financing transactions and certain off-balance sheet transactions. In proposing the OBS, FINRA's aim is to obtain more comprehensive and consistent information regarding carrying and clearing firms' off-balance sheet assets, liabilities and other commitments. This information will permit FINRA to assess more effectively on an ongoing basis the potential impact off-balance sheet activities may have on carrying and clearing firms' net capital, leverage and liquidity, and ability to fulfill their customer protection obligations.

The proposed OBS would require firms to report their gross exposures in financing transactions (*e.g.*, reverse repos, repos and other transactions that are otherwise netted under generally accepted accounting principles, reverse repos and repos to maturity and collateral swap transactions), interests in and exposure to Variable Interest Entities, non-regular way settling transactions (including to be announced or TBA securities and delayed settlement/delivery transactions), underwriting and other financing commitments, and gross notional amounts in centrally cleared and non-centrally cleared derivative contracts involving equities, commodities, interest rates, foreign exchange derivatives and credit default swaps.

Request for Comment

While FINRA is interested in receiving comments on all aspects of the proposed OBS, FINRA seeks specific comment on whether there is a category of carrying or clearing firms that should not be required to file the proposed OBS based upon *de minimis* off-balance sheet activity. The comment period expires on June 4, 2012.

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

Endnotes

1. See Securities Exchange Act Release No. 66364 (February 9, 2012), 77 FR 8938 (February 15, 2012) (Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 2; File No. SR-FINRA-2011-064).
2. 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.
3. 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.

Attachment A

Supplemental Quarterly Schedule To Focus Report Derivatives And Other Off-Balance Sheet Items

General Instructions

1. Commitments

A. Securities Underwriting

Report the market value of open contractual commitments at month-end, including both registered and non-registered issuances.

Note: Exclude U.S. Treasuries and direct obligations of U.S. Federal Agencies.

B. Financing commitments not included on lines 3F or 3G

Report the dollar amount of any other commitments to lend funds that haven't been identified in lines 3F or 3G including margin or other undrawn loan commitments.

2. Variable Interest Entities (VIEs)

A. Unconsolidated VIEs

Report the gross amounts of assets and liabilities of unconsolidated VIEs.

B. Maximum exposure to loss relating to unconsolidated VIEs

The maximum exposure to loss assumes all assets in the unconsolidated VIEs are worthless and includes potential losses associated with off-balance sheet commitments such as unfunded liquidity commitments and other contractual arrangements.

Memo item: Investment in unconsolidated VIEs

Report any investment(s) that have been included on the balance sheet for any entity(ies) whose assets and liabilities are included in line 2A above.

C. Maximum exposure to loss relating to consolidated VIEs

Report the maximum exposure to loss in consolidated VIEs including retained interests and other exposures (*e.g.*, derivatives and liquidity commitments).

3. **Off-Balance Sheet Financing Transactions**

A. **Reverse Repos and Repos offset pursuant to ASC 210-20-45-11**

Report the gross contract value that was netted pursuant to ASC 210-20-45-11.

Note: Include the gross contract value of Buy/Sell-backs and Sell/Buy-backs that were netted pursuant to ASC 210-20-45-11.

B. **Transactions offset pursuant to ASC 210-20-45-1**

Report the gross contract value of transactions that have been netted pursuant to ASC 210-20-45-1.

C. **Reverse Repos/Repos to maturity pursuant to ASC 860-10-40-5**

Report the gross contract value of Reverse Repo or Bonds Borrowed contracts (as a debit) and the gross contract value of Repos or Bonds Loaned contracts (as a credit) that were de-recognized from the balance sheet pursuant to ASC 860-10-40-5.

D. **Securities Borrowed vs. Pledge agreements**

Report the gross collateral market value of Non-Cash Securities Borrows and Non-Cash Securities Loans agreements not included on the balance sheet pursuant to ASC 860.

E. **Reverse Repo vs. Pledge agreements**

Report the gross collateral market value of Non-Cash Reverse Repo and Repurchase agreements not included on the balance sheet pursuant to ASC 860.

F. **Forward starting Reverse Repurchase and Securities Borrowing agreements**

Report the gross contract value of the on-side leg of forward starting Reverse Repo and Securities Borrow transactions.

G. **Forward starting Repurchase and Securities Lending agreements**

Report the gross contract value of the on-side leg of forward starting Repurchase and Securities Lending transactions.

H. **Other**

Report any other off-balance sheet financing agreements not otherwise included above.

4. **Non-Regular Way Settling Trades**

A. **When Issued Securities**

Report the gross long and short market values of securities positions purchased and sold on a “When Issued” basis and not otherwise included on the balance sheet.

B. **Delayed Delivery/Delayed Settlement**

Report the gross long and short market values of all unsettled trades transacted on a Delayed Delivery/Delayed Settlement basis, not otherwise included on the balance sheet.

C. **To Be Announced (TBA) transactions**

Report the gross long and short market values of all unsettled TBA transactions in securities issued by Freddie Mac (FHLMC), Fannie Mae (FNMA) and Ginnie Mae (GNMA).

D. **TBA related fails not included on balance sheet**

Report the gross long and short market value of TBA transactions that have passed their contracted settlement date and are not otherwise included on the balance sheet.

E. **Other**

Report the gross long and short market value of any other Non-Regular Way settling transactions not otherwise included on the balance sheet or in 4A through D above.

5. **Forwards**

A. **Foreign Exchange**

Report the gross amount stated in \$USD, of all foreign exchange forwards committing the firm to purchase or sell foreign (non-\$USD) currencies for a \$USD exchange, where the predominant risk is foreign exchange risk.

The term “foreign exchange forward” means a transaction that solely involves the exchange of two different currencies on a specific future date at a fixed rate agreed upon on the inception of the contract covering the exchange.

Note: For purposes of the OBS, a foreign exchange forward is a contract with a settlement date greater than two business days following the trade date. (*i.e.*, > T+2).

B. **Other**

Report the gross purchase and sale of other forward settling transactions, not otherwise included in the balance sheet.

SUPPLEMENTAL QUARTERLY SCHEDULE TO FOCUS REPORT

DERIVATIVES AND OTHER OFF-BALANCE SHEET ITEMS

(Please read instructions before completing Form)

NAME OF BROKER-DEALER _____	13	SEC FILE NO. _____	14
ADDRESS OF PRINCIPAL PLACE OF BUSINESS _____	20	FIRM ID NO. _____	15
(No. and Street)			
_____	21	_____	23
(City)	(State)	(Zip Code)	
		FOR PERIOD ENDING (MM/DD/YY) _____	24
NAME OF PERSON COMPLETING THIS REPORT _____			10001
TELEPHONE NO. OF PERSON COMPLETING THIS REPORT _____			10002

All reporting is in millions

		Gross Amounts Debit or Long Market Value		Gross Amounts Credit or Short Market Value
1. Commitments				
A. Securities Underwriting	\$ _____	10100	\$ _____	10101
B. Financing commitments not included on lines 3F or 3G	\$ _____	10102	\$ _____	10103
2. Variable Interest Entities (VIEs)				
A. Unconsolidated VIEs.....	\$ _____	10104	\$ _____	10105
B. Maximum exposure to loss relating to unconsolidated VIEs	\$ _____	10106	\$ _____	10107
Memo item: Investment in unconsolidated VIEs...\$ _____	10108			
C. Maximum exposure to loss relating to consolidated VIEs	\$ _____	10110	\$ _____	10111
3. Off-Balance Sheet Financing Transactions				
A. Reverse Repos and Repos offset pursuant to ASC 210-20-45-11.....	\$ _____	10112	\$ _____	10113
B. Transactions offset pursuant to ASC 210-20-45-1.....	\$ _____	10114	\$ _____	10115
C. Reverse Repos/Repos to maturity pursuant to ASC 860-10-40-5.....	\$ _____	10116	\$ _____	10117
D. Securities Borrowed vs. Pledge agreements.....	\$ _____	10118	\$ _____	10119
E. Reverse Repo vs. Pledge agreements.....	\$ _____	10120	\$ _____	10121
F. Forward starting Reverse Repurchase and Securities Borrowing agreements.....	\$ _____	10122	\$ _____	10123
G. Forward starting Repurchase and Securities Lending agreements.....	\$ _____	10124	\$ _____	10125
H. Other.....	\$ _____	10126	\$ _____	10127
4. Non-Regular Way Settling Trades				
A. When Issued Securities	\$ _____	10128	\$ _____	10129
B. Delayed Delivery/Delayed Settlement	\$ _____	10130	\$ _____	10131
C. To Be Announced (TBA) transactions	\$ _____	10132	\$ _____	10133
D. TBA related fails not included on balance sheet	\$ _____	10134	\$ _____	10135
E. Other	\$ _____	10136	\$ _____	10137
5. Forwards				
A. Foreign Exchange.....	\$ _____	10138	\$ _____	10139
B. Other	\$ _____	10140	\$ _____	10141

**SUPPLEMENTAL QUARTERLY SCHEDULE TO FOCUS REPORT
DERIVATIVES AND OTHER OFF-BALANCE SHEET ITEMS**
For the period (MMDDYY) ending _____ 3932

Derivatives

	Interest Rate Contracts		Foreign Exchange Contracts		Equity Derivative Contracts		Commodity and other Contracts	
6. Total gross notional amount.....	\$ _____	<u>10142</u>	\$ _____	<u>10143</u>	\$ _____	<u>10144</u>	\$ _____	<u>10145</u>
7. Dollar amount in 6 that is centrally cleared.....	\$ _____	<u>10146</u>	\$ _____	<u>10147</u>	\$ _____	<u>10148</u>	\$ _____	<u>10149</u>
8. Gross Mark-to-Market receivable.....	\$ _____	<u>10150</u>	\$ _____	<u>10151</u>	\$ _____	<u>10152</u>	\$ _____	<u>10153</u>
9. Gross Mark-to-Market payable.....	\$ _____	<u>10154</u>	\$ _____	<u>10155</u>	\$ _____	<u>10156</u>	\$ _____	<u>10157</u>

Credit Derivatives

	Sold Protection		Purchased Protection	
10. Total gross notional amount.....	\$ _____	<u>10158</u>	\$ _____	<u>10159</u>
11. Dollar amount in 10 that is centrally cleared.....	\$ _____	<u>10160</u>	\$ _____	<u>10161</u>
12. Gross Mark-to-Market receivable.....	\$ _____	<u>10162</u>	\$ _____	<u>10163</u>
13. Gross Mark-to-Market payable.....	\$ _____	<u>10164</u>	\$ _____	<u>10165</u>
