

Financial Reporting Requirements

Amendments to the SEC’s Financial Reporting Requirements—eFOCUS System Updates and Annual Audit Requirements

Summary

The Securities and Exchange Commission (SEC) has adopted amendments¹ that simplify and update, among other rules and forms, certain of the FOCUS² reporting requirements for brokers and dealers and make changes to the annual audit requirements. FINRA is updating the electronic FOCUS filing system (the eFOCUS System) to incorporate the SEC’s amendments.³ To facilitate members’ efforts to comply with the new requirements, FINRA is making available on the FINRA website resources that illustrate the eFOCUS System updates.

Pursuant to no-action relief issued by the staff of the SEC Division of Trading and Markets (the SEC staff),⁴ the SEC staff stated that it will not recommend enforcement action to the SEC if a broker-dealer continues to file the FOCUS Report as required prior to these amendments when reporting for periods ending on or before December 31, 2018. Therefore, the new FOCUS reporting requirements apply beginning with FOCUS reports filed for the period ending January 2019 and after. For example, for firms filing as of the last day of the month, the FOCUS reporting requirements apply beginning with FOCUS reports filed for the period ending January 31, 2019, and after. The new annual audit requirements apply to annual audit reports due for fiscal years ending in January 2019 and after.

Questions concerning this *Notice* should be directed to:

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- ▶ Ann Duguid, Senior Director, ROOR, at (646) 315-7260 or Ann.Duguid@finra.org; or
- ▶ Anthony Vinci, Director, ROOR, at (646) 315-8335 or Anthony.Vinci@finra.org.

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Notice Type

- ▶ Guidance

Suggested Routing

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

Key Topics

- ▶ Annual Audit Reports
- ▶ FOCUS Reporting

Referenced Rules & Notices

- ▶ FINRA Rule 4524
- ▶ Form X-17A-5
- ▶ Regulation S-X
- ▶ SEA Rule 17a-5

Background & Discussion

eFOCUS Updates

Pursuant to SEA Rule 17a-5, members are required to file with FINRA, through the eFOCUS System, reports concerning their financial and operational status using SEC Form X-17A-5 (referred to as the FOCUS Report). The SEC's amendments update the FOCUS Report to reflect updated U.S. Generally Accepted Accounting Principles (U.S. GAAP) requirements.⁵ More specifically, the amendments revise the Statement of Financial Condition and the Statement of Income in the FOCUS Reports to include new line items added for the reporting of comprehensive income, including other comprehensive income and accumulated other comprehensive income. The amendments update line items to eliminate references to extraordinary gains or losses and the cumulative effect of changes in accounting principles.

FINRA is updating the eFOCUS System to incorporate the SEC's FOCUS Report amendments. To assist members' efforts to comply with the new requirements, FINRA has made available the following resources on the FINRA website that illustrate the eFOCUS System updates:

- ▶ [FOCUS Report Part II](#)
- ▶ [FOCUS Report Part IIA](#)
- ▶ [FOCUS Report Part II CSE](#)

As noted above, the new FOCUS reporting requirements apply beginning with FOCUS reports filed for the period ending January 2019 and after. For example, for firms filing as of the last day of the month, the FOCUS reporting requirements apply beginning with FOCUS reports filed for the period ending January 31, 2019, and after.

FINRA will make available the updated eFOCUS forms on Firm Gateway beginning December 31, 2018. Requests for technical assistance with the new eFOCUS forms may be directed to the FINRA Gateway Call Center at (800) 321-6273.

Annual Audit Requirements

Members should note that, pursuant to the SEC's amendments, the annual audit report must contain a Statement of Comprehensive Income, in place of a Statement of Income, if there is other comprehensive income in the period presented.⁶ As noted above, this requirement applies to annual audit reports due for fiscal years ending in January 2019 and after.

FINRA is separately considering revisions to the Supplementary Statement of Income (SSOI) designed to conform to the SEC's new requirements.⁷

Endnotes

- 1 See Exchange Act Release No. 83875 (August 17, 2018), 83 FR 50148 (October 4, 2018) (Final Rule: Disclosure Update and Simplification) (the SEC's Adopting Release). The SEC has also made available a [Demonstration Version](#) of the amendments. As discussed further in this *Notice*, the SEC staff has issued a no-action letter granting specified relief with respect to the new requirements. See note 4.
- 2 "FOCUS" stands for Financial and Operational Combined Uniform Single.
- 3 Members must submit their FOCUS Reports electronically through the eFOCUS System via the FINRA Firm Gateway.
- 4 See letter from Michael A. Macchiaroli, Associate Director, Division of Trading and Markets, SEC, to Ann Duguid, Senior Director, FINRA (October 29, 2018), available on the SEC [website](#).
- 5 See, for example, the SEC's Adopting Release at 83 FR 50179, 50182 and 50183.
- 6 See the SEC's Adopting Release at 83 FR 50223. The requirement is set forth in a new note that has been added to SEA Rule 17a-5(d)(2)(i). "Statement of Comprehensive Income" is defined in § 210.1-02 under Regulation S-X, as amended pursuant to the SEC's Adopting Release. See the SEC's Adopting Release at 83 FR 50198.
- 7 FINRA implemented the SSOI pursuant to FINRA Rule 4524 in 2012. See [Regulatory Notice 12-11](#) (Supplemental FOCUS Information) (February 2012).