

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="33"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2015"/> - * <input type="text" value="059"/> Amendment No. (req. for Amendments *) <input type="text"/>
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Filing by Financial Industry Regulatory Authority  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

Proposed Rule Change to Amend the Derivatives and Other Off-Balance Sheet Items Schedule Pursuant to FINRA Rule 4524 (Supplemental FOCUS Information)

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * <input type="text" value="Meredith"/>	Last Name * <input type="text" value="Cordisco"/>
Title * <input type="text" value="Assistant General Counsel"/>	
E-mail * <input type="text" value="meredith.cordisco@finra.org"/>	
Telephone * <input type="text" value="(202) 728-8018"/>	Fax <input type="text" value="(202) 728-8264"/>

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date <input type="text" value="12/23/2015"/>	<input type="text" value="Senior Vice President and Deputy General Counsel"/>
By <input type="text" value="Patrice Gliniecki"/>	<input type="text" value="Patrice Gliniecki"/>

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

**Form 19b-4 Information \***

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

**1. Text of the Proposed Rule Change**

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “SEA”),<sup>1</sup> Financial Industry Regulatory Authority, Inc. (“FINRA”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to amend the instructions to the Derivatives and Other Off-Balance Sheet Items Schedule (“OBS”) pursuant to FINRA Rule 4524 (Supplemental FOCUS Information) to expand the application of the OBS to certain non-carrying/non-clearing firms that have significant amounts of off-balance sheet obligations.

The proposed rule change does not propose amendments to existing rule text. The OBS and the proposed amended instructions thereto are attached as Exhibit 3.

(b) Not applicable.

(c) Not applicable.

**2. Procedures of the Self-Regulatory Organization**

At its meeting on September 17, 2015, the FINRA Board of Governors authorized the filing of the proposed rule change with the SEC. No other action by FINRA is necessary for the filing of the proposed rule change.

If the Commission approves the proposed rule change, FINRA will announce the implementation date (i.e. the first quarterly reporting period for newly affected firms<sup>2</sup>) in a Regulatory Notice to be published no later than 60 days following Commission

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> Carrying or clearing firms that are currently subject to the OBS’s reporting requirements would not be impacted by the proposed rule change and shall continue to file on a quarterly basis, as required, without interruption.

approval. The implementation date would be no later than 210 days following Commission approval.

**3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

(a) Purpose

FINRA Rule 4524 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.<sup>3</sup> In February 2013, the SEC approved FINRA’s adoption, pursuant to FINRA Rule 4524, of the OBS as a supplement to the FOCUS report.<sup>4</sup> The OBS captures important information that is not otherwise reported on firms’ balance sheets and requires all firms that carry customer accounts or self-clear or clear transactions for others (referred to, collectively, as “carrying or clearing firms”) to file with FINRA the OBS within 22 business days of the end of each calendar quarter, unless a carrying or

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<sup>3</sup> See Securities Exchange Act Release No. 66364 (February 9, 2012), 77 FR 8938 (February 15, 2012) (Order Approving File No. SR-FINRA-2011-064). FINRA Rule 4524 also provides that FINRA will specify the content of additional schedules or reports, their format, and the timing and the frequency of such supplemental filings in a Regulatory Notice (or similar communication), the content of which FINRA will file with the Commission pursuant to Section 19(b) of the Act.

<sup>4</sup> See Securities Exchange Act Release No. 68832 (February 5, 2013), 78 FR 9754 (February 11, 2013) (Order Approving File No. SR-FINRA-2012-050). Carrying or clearing firms were required to file with FINRA their initial OBS on or before July 31, 2013, to disclose off-balance sheet information as of June 30, 2013. See Regulatory Notice 13-10 (March 2013) (Supplemental FOCUS Information).

clearing firm meets the *de minimis* exception set forth in the instructions to the OBS.<sup>5</sup>

Pursuant to FINRA Rule 4524, the proposed rule change would amend the instructions to the OBS to expand its application beyond carrying or clearing firms to include firms that neither carry customer accounts nor clear transactions (referred to, collectively, as “non-clearing firms”) that have, pursuant to SEA Rule 15c3-1,<sup>6</sup> a minimum dollar net capital requirement equal to or greater than \$100,000, and at least \$10 million in reportable items pursuant to the OBS. As discussed in more detail below, this proposed expansion is necessary for FINRA to effectively examine for compliance with, and enforce, its rules on capital adequacy. The proposed rule change does not otherwise change the OBS or its instructions, including the *de minimis* exception.

Accordingly, consistent with the current OBS, any firm (i.e. either a carrying or clearing firm or a non-clearing firm) that meets the *de minimis* exception need not file the OBS for the reporting period.<sup>7</sup> Further, under the proposed rule change, as under the current OBS,

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<sup>5</sup> The *de minimis* exception relieves a carrying or clearing firm from filing the OBS for the reporting period if the aggregate of all gross amounts of off-balance sheet items is less than 10 percent of the firm’s excess net capital on the last day of the reporting period. For purposes of the OBS, as well as the proposed amendments to the OBS, the term “excess net capital” means net capital reduced by the greater of the minimum dollar net capital requirement or two percent of combined aggregate debit items as shown in the Formula for Reserve Requirements pursuant to SEA Rule 15c3-3. See Securities Exchange Act Release No. 68832 (February 5, 2013), 78 FR 9754, 9755 (February 11, 2013) (Order Approving File No. SR-FINRA-2012-050).

<sup>6</sup> See 17 CFR 240.15c3-1 (Net Capital Requirements for Brokers or Dealers). SEA Rule 15c3-1(a)(2)(iii) requires a “dealer” (as defined in SEA Rule 15c3-1(a)(2)(iii)) to maintain net capital of not less than \$100,000.

<sup>7</sup> However, a firm that claims the *de minimis* exception must affirmatively indicate through the eFOCUS system that no filing is required for the reporting period. See Regulatory Notice 13-10 (March 2013) (Supplemental FOCUS Information).

any firm that is required to file the OBS must do so as of the last day of a reporting period within 22 business days of the end of each calendar quarter.

When FINRA proposed the OBS, FINRA noted the need, in the aftermath of the financial crisis, to obtain more comprehensive and consistent information regarding carrying or clearing firms' off-balance sheet assets, liabilities and other commitments.<sup>8</sup> By requiring carrying or clearing 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 settlement transactions (including to-be-announced or TBA<sup>9</sup> securities and delayed delivery/settlement transactions), underwriting and other financing commitments, and gross notional amounts in centrally cleared and non-centrally cleared derivative transactions on the OBS, FINRA has been able to more effectively monitor on an ongoing basis the potential impact that such off-balance sheet activities may have on carrying or clearing firms' net capital, leverage and liquidity, and their ability to fulfill their customer protection obligations.

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<sup>8</sup> See Securities Exchange Act Release No. 68270 (November 20, 2012), 77 FR 70860 (November 27, 2012) (Notice of Filing File No. SR-FINRA-2012-050).

<sup>9</sup> FINRA Rule 6710(u) defines "TBA" to mean a transaction in an Agency Pass-Through Mortgage-Backed Security ("MBS") or a Small Business Administration ("SBA")-Backed Asset-Backed Security ("ABS") where the parties agree that the seller will deliver to the buyer a pool or pools of a specified face amount and meeting certain other criteria but the specific pool or pools to be delivered at settlement is not specified at the Time of Execution, and includes TBA transactions for good delivery and TBA transactions not for good delivery. Agency Pass-Through MBS and SBA-Backed ABS are defined under FINRA Rule 6710(v) and FINRA Rule 6710(bb), respectively. The term "Time of Execution" is defined under FINRA Rule 6710(d).

Since the OBS became effective, however, FINRA has observed considerable principal trading activities of some non-clearing firms. In particular, through its efforts to establish margin requirements for the TBA market<sup>10</sup> and subsequent examinations of firms' margining practices related to all securities transactions with extended settlement dates, FINRA has become aware of non-clearing firms with both material TBA transactions as well as other types of securities transactions with extended settlement dates. In the case of TBA transactions, non-clearing firms may have entered into a Master Securities Forward Transaction Agreement ("MSFTA")<sup>11</sup> with their clients and are principal to the TBA transactions. In the case of other transactions with extended settlement dates cleared through a clearing firm, non-clearing firms are principal to the trades and financially responsible to the clearing firms for any losses that may result from clients' failures to complete the transactions on the date of settlement. Therefore, these transactions may present significant financial exposure for non-clearing firms. FINRA is concerned about firms appropriately monitoring their financial exposure and applying capital charges for these transactions as required for compliance with SEA Rule 15c3-1.<sup>12</sup>

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<sup>10</sup> See Securities Exchange Act Release No. 76148 (October 14, 2015), 80 FR 63603 (October 20, 2015) (Notice of Filing File No. SR-FINRA-2015-036).

<sup>11</sup> The Securities Industry and Financial Markets Association ("SIFMA") developed, and subsequently updated, in coordination with the Treasury Market Practices Group ("TMPG"), the MSFTA as a standard industry template for forward and other delayed delivery transactions involving mortgage-backed and asset-backed securities. See, e.g., SIFMA Guidance Notes to the Master Securities Forward Transaction Agreement (December 2012), available at: <http://www.sifma.org/services/standard-forms-and-documentation/mra,-gmra,-msla-and-msftas/>.

<sup>12</sup> 17 CFR 240.15c3-1.

Further, such transactions are not reported on non-clearing firms' balance sheets, making it difficult to monitor their compliance with capital requirements.

As a result of these concerns, and to ensure that all firms with significant derivative and off-balance sheet positions report these positions to FINRA on a consistent and regular basis, FINRA is proposing to expand the reporting requirements of the OBS to non-clearing firms that have a minimum dollar net capital requirement equal to or greater than \$100,000, and at least \$10 million in reportable items pursuant to the OBS. The current *de minimis* exception would remain available to any firm that conducts limited off-balance sheet activity.<sup>13</sup>

As noted in Item 2 of this filing, if the Commission approves the proposed rule change, FINRA will announce the implementation date (i.e. the first quarterly reporting period for newly affected firms<sup>14</sup>) in a Regulatory Notice to be published no later than 60 days following Commission approval of the proposed rule change. The implementation date will be no later than 210 days following Commission approval of the proposed rule change.

(b) Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,<sup>15</sup> which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public

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<sup>13</sup> See supra note 5.

<sup>14</sup> See supra note 2.

<sup>15</sup> 15 U.S.C. 78o-3(b)(6).

interest. FINRA believes that the proposed rule change is consistent with the Act because expanding the reporting requirements of the OBS to the proposed non-clearing firms would permit FINRA to assess effectively on an ongoing basis the potential impact off-balance sheet activities may have on these firms' net capital, leverage and liquidity, and ability to fulfill obligations to other members and counterparties. FINRA also expects that impacted non-clearing firms, as well as their correspondent clearing firms, would benefit from increased awareness of their open trade exposures, which may reduce their potential for losses, encourage better counterparty risk management and promote firms' financial stability. The proposed rule change is also consistent with Section 712(b)(3)(B) of the Dodd-Frank Wall Street Reform and Consumer Protection Act in that it is necessary to enable FINRA to more effectively examine for compliance with, and enforce, its rules on capital adequacy.<sup>16</sup>

**4. Self-Regulatory Organization's Statement on Burden on Competition**

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. FINRA has carefully crafted the proposed rule change to achieve its intended and necessary regulatory purpose while minimizing the burden on firms.

Economic Impact Assessment

The purpose of the proposal is to ensure that all firms with significant derivative and off-balance sheet positions report these positions to FINRA on a consistent and regular basis. Specifically, the proposal extends the reporting requirement to non-clearing firms that have a minimum dollar net capital requirement equal to or greater than

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<sup>16</sup> Pub. L. No. 111-203, 124 Stat. 1376 (2010).

\$100,000, and at least \$10 million in reportable items pursuant to the OBS. The primary anticipated net benefit of the proposal is better insights into the size and nature of firms' open exposures in TBA and other extended settlement transactions or other off-balance sheet exposures. This information would enable FINRA to more efficiently monitor on an ongoing basis the financial condition of member firms, including firms' compliance with capital adequacy rules. FINRA also expects that impacted non-clearing firms, as well as their correspondent clearing firms, would benefit from increased awareness of their open trade exposures, which may reduce their potential for losses. Accordingly, FINRA's experience suggests that firms may apply better counterparty risk management practices as a result of extending the OBS to the additional firms.

FINRA estimates that approximately 100 additional firms will be required to file the OBS under the proposal, though the actual number will fluctuate as off-balance sheet items and excess net capital vary depending on firms' reporting figures. However, the filing of the OBS is not expected to have significant compliance costs for the newly affected firms and will not impact member firms currently required to file the OBS.<sup>17</sup> The information required for proposed newly affected firms to complete the OBS should be accessible to firms due to firms' obligations to maintain books and records and to take applicable capital charges in relation to off-balance sheet transactions. Further, FINRA understands that correspondent clearing firms typically provide non-clearing firms with information on all open trades or provide non-clearing firms with ready access to such information, either of which could serve as a potential source for the required information

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<sup>17</sup> For example, in discussions with non-clearing firms regarding the proposal, several firms estimated that it would take no more than a few hours per quarter and cost \$5,000 to \$10,000 per year to file the OBS.

for non-clearing firms. Finally, as discussed above, for those firms that conduct limited off-balance sheet activity, the proposed amended OBS retains the *de minimis* exception for each reporting period.<sup>18</sup>

The proposal will ensure that all firms with significant off-balance sheet obligations are required to report them in a consistent manner. Further, the reporting requirement is expected to create positive externalities as firms that currently do not report this information will be able to better monitor and manage their counterparty exposures, better manage their participation in off-balance sheet activities and maintain sufficient net capital to support such transactions. To the extent that member firms reduce their off-balance sheet activities as a result of this rule, impacted customers may incur search costs as they replace their broker counterparties.

A potential significant benefit of the proposal may arise from enhanced monitoring of systemic risk that is caused by the interconnectedness of firms through significant counterparty exposure and likelihood of correlated defaults in the financial industry. This enhanced monitoring of systemic risk should also benefit clearing firms as counterparty risk is partially mitigated for these firms as a result of better monitoring of financial exposures created by these transactions. There is academic evidence that banking systems may be less prone to crises if more comprehensive financial reporting regimes are in effect, even when the reporting is only to the regulator.<sup>19</sup>

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<sup>18</sup> See supra note 5.

<sup>19</sup> Solomon A. Tadesse, The Economic Value of Regulated Disclosure: Evidence from the Banking Sector, 25 J. ACCT. & PUB. POL'Y 32-70 (2006).

FINRA considered alternative thresholds, such as extending the OBS reporting requirements to non-clearing firms with less than \$10 million in reportable items, when developing the proposed rule change. In connection with this proposal, FINRA identified 334 firms that currently do not file the OBS with open exposure in TBA and other extended settlement transactions totaling approximately \$93.3 billion.<sup>20</sup> FINRA reviewed their aggregate exposures in TBA and other extended settlement transactions and found that the majority of these firms (227 firms) had open exposures of less than \$10 million, totaling approximately \$363 million, and that the level of firms' exposures dropped off significantly below the \$10 million threshold. In this regard, of the non-clearing firms identified to have less than \$10 million in TBA and other extended settlement exposure, the vast majority of those (204 firms) had exposure of less than \$5 million, totaling approximately \$206 million. Accordingly, the firms with open TBA and other extended settlement transactions of less than \$10 million collectively account for less than 1% of the total aggregate open TBA and other extended settlement transactions of the non-clearing firms identified. FINRA does not believe that the purpose of the proposed rule change is furthered by requiring firms with relatively immaterial levels of this type of exposure to file the OBS. Therefore, FINRA believes that extending the reporting requirements to non-clearing firms meeting the chosen criteria – that is, those with a minimum dollar net capital requirement equal to or greater than \$100,000 (the

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<sup>20</sup> To assess the potential size of TBA and other extended settlement transactions of non-clearing firms, FINRA conducted a survey of some of the largest correspondent clearing firms. The figures represented are only approximate and represent identified non-clearing firms' exposures as of a specific date. As exposures in TBA and other extended settlement trades vary from month to month, the actual number of firms falling into these categories will change, as will the number of firms required to file the OBS on any given month.

required minimum dollar net capital for dealers under SEA Rule 15c3-1(a)(2)(iii)<sup>21</sup>) and at least \$10 million in reportable items – will capture those non-clearing firms with the most significant amounts of off-balance sheet exposure and possible risk to other members and counterparties.

5. **Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

Written comments were neither solicited nor received.

6. **Extension of Time Period for Commission Action**

FINRA does not consent at this time to an extension of the time period for Commission action specified in Section 19(b)(2) of the Act.<sup>22</sup>

7. **Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)**

Not applicable.

8. **Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

Not applicable.

9. **Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

10. **Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

Not applicable.

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<sup>21</sup> See supra note 6.

<sup>22</sup> 15 U.S.C. 78s(b)(2).

**11. Exhibits**

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

Exhibit 3. Derivatives and Other Off-Balance Sheet Items Schedule (OBS)

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-FINRA-2015-059)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change to Amend the Derivatives and Other Off-Balance Sheet Items Schedule Pursuant to FINRA Rule 4524 (Supplemental FOCUS Information)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “SEA”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on , Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

FINRA is proposing to amend the instructions to the Derivatives and Other Off-Balance Sheet Items Schedule (“OBS”) pursuant to FINRA Rule 4524 (Supplemental FOCUS Information) to expand the application of the OBS to certain non-carrying/non-clearing firms that have significant amounts of off-balance sheet obligations. The proposed rule change does not propose amendments to existing rule text.

The text of the proposed rule change is available on FINRA’s website at <http://www.finra.org>, at the principal office of FINRA and at the Commission’s Public Reference Room.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

FINRA Rule 4524 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.<sup>3</sup> In February 2013, the SEC approved FINRA's adoption, pursuant to FINRA Rule 4524, of the OBS as a supplement to the FOCUS report.<sup>4</sup> The OBS captures important information that is not otherwise reported on firms' balance sheets and requires all firms that carry customer accounts or self-clear or clear transactions for

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<sup>3</sup> See Securities Exchange Act Release No. 66364 (February 9, 2012), 77 FR 8938 (February 15, 2012) (Order Approving File No. SR-FINRA-2011-064). FINRA Rule 4524 also provides that FINRA will specify the content of additional schedules or reports, their format, and the timing and the frequency of such supplemental filings in a Regulatory Notice (or similar communication), the content of which FINRA will file with the Commission pursuant to Section 19(b) of the Act.

<sup>4</sup> See Securities Exchange Act Release No. 68832 (February 5, 2013), 78 FR 9754 (February 11, 2013) (Order Approving File No. SR-FINRA-2012-050). Carrying or clearing firms were required to file with FINRA their initial OBS on or before July 31, 2013, to disclose off-balance sheet information as of June 30, 2013. See Regulatory Notice 13-10 (March 2013) (Supplemental FOCUS Information).

others (referred to, collectively, as “carrying or clearing firms”) to file with FINRA the OBS within 22 business days of the end of each calendar quarter, unless a carrying or clearing firm meets the de minimis exception set forth in the instructions to the OBS.<sup>5</sup>

Pursuant to FINRA Rule 4524, the proposed rule change would amend the instructions to the OBS to expand its application beyond carrying or clearing firms to include firms that neither carry customer accounts nor clear transactions (referred to, collectively, as “non-clearing firms”) that have, pursuant to SEA Rule 15c3-1,<sup>6</sup> a minimum dollar net capital requirement equal to or greater than \$100,000, and at least \$10 million in reportable items pursuant to the OBS. As discussed in more detail below, this proposed expansion is necessary for FINRA to effectively examine for compliance with, and enforce, its rules on capital adequacy. The proposed rule change does not otherwise change the OBS or its instructions, including the de minimis exception. Accordingly, consistent with the current OBS, any firm (i.e. either a carrying or clearing firm or a non-clearing firm) that meets the de minimis exception need not file the OBS

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<sup>5</sup> The de minimis exception relieves a carrying or clearing firm from filing the OBS for the reporting period if the aggregate of all gross amounts of off-balance sheet items is less than 10 percent of the firm’s excess net capital on the last day of the reporting period. For purposes of the OBS, as well as the proposed amendments to the OBS, the term “excess net capital” means net capital reduced by the greater of the minimum dollar net capital requirement or two percent of combined aggregate debit items as shown in the Formula for Reserve Requirements pursuant to SEA Rule 15c3-3. See Securities Exchange Act Release No. 68832 (February 5, 2013), 78 FR 9754, 9755 (February 11, 2013) (Order Approving File No. SR-FINRA-2012-050).

<sup>6</sup> See 17 CFR 240.15c3-1 (Net Capital Requirements for Brokers or Dealers). SEA Rule 15c3-1(a)(2)(iii) requires a “dealer” (as defined in SEA Rule 15c3-1(a)(2)(iii)) to maintain net capital of not less than \$100,000.

for the reporting period.<sup>7</sup> Further, under the proposed rule change, as under the current OBS, any firm that is required to file the OBS must do so as of the last day of a reporting period within 22 business days of the end of each calendar quarter.

When FINRA proposed the OBS, FINRA noted the need, in the aftermath of the financial crisis, to obtain more comprehensive and consistent information regarding carrying or clearing firms' off-balance sheet assets, liabilities and other commitments.<sup>8</sup> By requiring carrying or clearing 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 settlement transactions (including to-be-announced or TBA<sup>9</sup> securities and delayed delivery/settlement transactions), underwriting and other financing commitments, and gross notional amounts in centrally cleared and non-centrally cleared derivative transactions on the OBS, FINRA has been able to more effectively monitor on

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<sup>7</sup> However, a firm that claims the de minimis exception must affirmatively indicate through the eFOCUS system that no filing is required for the reporting period. See Regulatory Notice 13-10 (March 2013) (Supplemental FOCUS Information).

<sup>8</sup> See Securities Exchange Act Release No. 68270 (November 20, 2012), 77 FR 70860 (November 27, 2012) (Notice of Filing File No. SR-FINRA-2012-050).

<sup>9</sup> FINRA Rule 6710(u) defines "TBA" to mean a transaction in an Agency Pass-Through Mortgage-Backed Security ("MBS") or a Small Business Administration ("SBA")-Backed Asset-Backed Security ("ABS") where the parties agree that the seller will deliver to the buyer a pool or pools of a specified face amount and meeting certain other criteria but the specific pool or pools to be delivered at settlement is not specified at the Time of Execution, and includes TBA transactions for good delivery and TBA transactions not for good delivery. Agency Pass-Through MBS and SBA-Backed ABS are defined under FINRA Rule 6710(v) and FINRA Rule 6710(bb), respectively. The term "Time of Execution" is defined under FINRA Rule 6710(d).

an ongoing basis the potential impact that such off-balance sheet activities may have on carrying or clearing firms' net capital, leverage and liquidity, and their ability to fulfill their customer protection obligations.

Since the OBS became effective, however, FINRA has observed considerable principal trading activities of some non-clearing firms. In particular, through its efforts to establish margin requirements for the TBA market<sup>10</sup> and subsequent examinations of firms' margining practices related to all securities transactions with extended settlement dates, FINRA has become aware of non-clearing firms with both material TBA transactions as well as other types of securities transactions with extended settlement dates. In the case of TBA transactions, non-clearing firms may have entered into a Master Securities Forward Transaction Agreement ("MSFTA")<sup>11</sup> with their clients and are principal to the TBA transactions. In the case of other transactions with extended settlement dates cleared through a clearing firm, non-clearing firms are principal to the trades and financially responsible to the clearing firms for any losses that may result from clients' failures to complete the transactions on the date of settlement. Therefore, these transactions may present significant financial exposure for non-clearing firms. FINRA is concerned about firms appropriately monitoring their financial exposure and applying

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<sup>10</sup> See Securities Exchange Act Release No. 76148 (October 14, 2015), 80 FR 63603 (October 20, 2015) (Notice of Filing File No. SR-FINRA-2015-036).

<sup>11</sup> The Securities Industry and Financial Markets Association ("SIFMA") developed, and subsequently updated, in coordination with the Treasury Market Practices Group ("TMPG"), the MSFTA as a standard industry template for forward and other delayed delivery transactions involving mortgage-backed and asset-backed securities. See, e.g., SIFMA Guidance Notes to the Master Securities Forward Transaction Agreement (December 2012), available at: <http://www.sifma.org/services/standard-forms-and-documentation/mra,-gmra,-msla-and-msftas/>.

capital charges for these transactions as required for compliance with SEA Rule 15c3-1.<sup>12</sup> Further, such transactions are not reported on non-clearing firms' balance sheets, making it difficult to monitor their compliance with capital requirements.

As a result of these concerns, and to ensure that all firms with significant derivative and off-balance sheet positions report these positions to FINRA on a consistent and regular basis, FINRA is proposing to expand the reporting requirements of the OBS to non-clearing firms that have a minimum dollar net capital requirement equal to or greater than \$100,000, and at least \$10 million in reportable items pursuant to the OBS. The current de minimis exception would remain available to any firm that conducts limited off-balance sheet activity.<sup>13</sup>

If the Commission approves the proposed rule change, FINRA will announce the implementation date (i.e. the first quarterly reporting period for newly affected firms<sup>14</sup>) in a Regulatory Notice to be published no later than 60 days following Commission approval of the proposed rule change. The implementation date will be no later than 210 days following Commission approval of the proposed rule change.

## 2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,<sup>15</sup> which requires, among other things, that FINRA rules

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<sup>12</sup> 17 CFR 240.15c3-1.

<sup>13</sup> See supra note 5.

<sup>14</sup> Carrying or clearing firms that are currently subject to the OBS's reporting requirements would not be impacted by the proposed rule change and shall continue to file on a quarterly basis, as required, without interruption.

<sup>15</sup> 15 U.S.C. 78o-3(b)(6).

must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. FINRA believes that the proposed rule change is consistent with the Act because expanding the reporting requirements of the OBS to the proposed non-clearing firms would permit FINRA to assess effectively on an ongoing basis the potential impact off-balance sheet activities may have on these firms' net capital, leverage and liquidity, and ability to fulfill obligations to other members and counterparties. FINRA also expects that impacted non-clearing firms, as well as their correspondent clearing firms, would benefit from increased awareness of their open trade exposures, which may reduce their potential for losses, encourage better counterparty risk management and promote firms' financial stability. The proposed rule change is also consistent with Section 712(b)(3)(B) of the Dodd-Frank Wall Street Reform and Consumer Protection Act in that it is necessary to enable FINRA to more effectively examine for compliance with, and enforce, its rules on capital adequacy.<sup>16</sup>

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. FINRA has carefully crafted the proposed rule change to achieve its intended and necessary regulatory purpose while minimizing the burden on firms.

Economic Impact Assessment

The purpose of the proposal is to ensure that all firms with significant derivative and off-balance sheet positions report these positions to FINRA on a consistent and

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<sup>16</sup> Pub. L. No. 111-203, 124 Stat. 1376 (2010).

regular basis. Specifically, the proposal extends the reporting requirement to non-clearing firms that have a minimum dollar net capital requirement equal to or greater than \$100,000, and at least \$10 million in reportable items pursuant to the OBS. The primary anticipated net benefit of the proposal is better insights into the size and nature of firms' open exposures in TBA and other extended settlement transactions or other off-balance sheet exposures. This information would enable FINRA to more efficiently monitor on an ongoing basis the financial condition of member firms, including firms' compliance with capital adequacy rules. FINRA also expects that impacted non-clearing firms, as well as their correspondent clearing firms, would benefit from increased awareness of their open trade exposures, which may reduce their potential for losses. Accordingly, FINRA's experience suggests that firms may apply better counterparty risk management practices as a result of extending the OBS to the additional firms.

FINRA estimates that approximately 100 additional firms will be required to file the OBS under the proposal, though the actual number will fluctuate as off-balance sheet items and excess net capital vary depending on firms' reporting figures. However, the filing of the OBS is not expected to have significant compliance costs for the newly affected firms and will not impact member firms currently required to file the OBS.<sup>17</sup> The information required for proposed newly affected firms to complete the OBS should be accessible to firms due to firms' obligations to maintain books and records and to take applicable capital charges in relation to off-balance sheet transactions. Further, FINRA understands that correspondent clearing firms typically provide non-clearing firms with

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<sup>17</sup> For example, in discussions with non-clearing firms regarding the proposal, several firms estimated that it would take no more than a few hours per quarter and cost \$5,000 to \$10,000 per year to file the OBS.

information on all open trades or provide non-clearing firms with ready access to such information, either of which could serve as a potential source for the required information for non-clearing firms. Finally, as discussed above, for those firms that conduct limited off-balance sheet activity, the proposed amended OBS retains the de minimis exception for each reporting period.<sup>18</sup>

The proposal will ensure that all firms with significant off-balance sheet obligations are required to report them in a consistent manner. Further, the reporting requirement is expected to create positive externalities as firms that currently do not report this information will be able to better monitor and manage their counterparty exposures, better manage their participation in off-balance sheet activities and maintain sufficient net capital to support such transactions. To the extent that member firms reduce their off-balance sheet activities as a result of this rule, impacted customers may incur search costs as they replace their broker counterparties.

A potential significant benefit of the proposal may arise from enhanced monitoring of systemic risk that is caused by the interconnectedness of firms through significant counterparty exposure and likelihood of correlated defaults in the financial industry. This enhanced monitoring of systemic risk should also benefit clearing firms as counterparty risk is partially mitigated for these firms as a result of better monitoring of financial exposures created by these transactions. There is academic evidence that banking systems may be less prone to crises if more comprehensive financial reporting regimes are in effect, even when the reporting is only to the regulator.<sup>19</sup>

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<sup>18</sup> See supra note 5.

<sup>19</sup> Solomon A. Tadesse, The Economic Value of Regulated Disclosure: Evidence from the Banking Sector, 25 J. ACCT. & PUB. POL'Y 32-70 (2006).

FINRA considered alternative thresholds, such as extending the OBS reporting requirements to non-clearing firms with less than \$10 million in reportable items, when developing the proposed rule change. In connection with this proposal, FINRA identified 334 firms that currently do not file the OBS with open exposure in TBA and other extended settlement transactions totaling approximately \$93.3 billion.<sup>20</sup> FINRA reviewed their aggregate exposures in TBA and other extended settlement transactions and found that the majority of these firms (227 firms) had open exposures of less than \$10 million, totaling approximately \$363 million, and that the level of firms' exposures dropped off significantly below the \$10 million threshold. In this regard, of the non-clearing firms identified to have less than \$10 million in TBA and other extended settlement exposure, the vast majority of those (204 firms) had exposure of less than \$5 million, totaling approximately \$206 million. Accordingly, the firms with open TBA and other extended settlement transactions of less than \$10 million collectively account for less than 1% of the total aggregate open TBA and other extended settlement transactions of the non-clearing firms identified. FINRA does not believe that the purpose of the proposed rule change is furthered by requiring firms with relatively immaterial levels of this type of exposure to file the OBS. Therefore, FINRA believes that extending the reporting requirements to non-clearing firms meeting the chosen criteria – that is, those with a minimum dollar net capital requirement equal to or greater than \$100,000 (the

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<sup>20</sup> To assess the potential size of TBA and other extended settlement transactions of non-clearing firms, FINRA conducted a survey of some of the largest correspondent clearing firms. The figures represented are only approximate and represent identified non-clearing firms' exposures as of a specific date. As exposures in TBA and other extended settlement trades vary from month to month, the actual number of firms falling into these categories will change, as will the number of firms required to file the OBS on any given month.

required minimum dollar net capital for dealers under SEA Rule 15c3-1(a)(2)(iii)<sup>21</sup>) and at least \$10 million in reportable items – will capture those non-clearing firms with the most significant amounts of off-balance sheet exposure and possible risk to other members and counterparties.

C. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission’s Internet comment form

(<http://www.sec.gov/rules/sro.shtml>); or

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<sup>21</sup> See supra note 6.

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FINRA-2015-059 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Robert W. Errett, Deputy Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2015-059. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2015-059 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>22</sup>

Robert W. Errett  
Deputy Secretary

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<sup>22</sup> 17 CFR 200.30-3(a)(12).

## **EXHIBIT 3**

### **SUPPLEMENTAL QUARTERLY SCHEDULE TO FOCUS REPORT**

#### **DERIVATIVES AND OTHER OFF-BALANCE SHEET ITEMS**

##### **GENERAL INSTRUCTIONS**

The Derivatives and Other Off-Balance Sheet Items Schedule (OBS) is intended to provide information that will permit FINRA to assess more effectively on an ongoing basis the potential impact off-balance sheet activities may have on firms' net capital, leverage and liquidity, and ability to fulfill their customer protection and counterparty obligations. Subject to the *de minimis* exception, the OBS must be filed by (1) all FINRA members that self-clear their proprietary transactions or clear transactions for others or carry customer accounts; and (2) all other FINRA members that have, pursuant to SEA Rule 15c3-1, a minimum dollar net capital requirement equal to or greater than \$100,000 and at least \$10 million in reportable items.

*De minimis* exception from filing the OBS: If the aggregate of all gross amounts of off-balance sheet items is less than 10% of the firm's excess net capital on the last day of the reporting period, the firm is exempted from this filing requirement. The term "excess net capital" means net capital reduced by the greater of the minimum dollar net capital requirement or 2% of combined aggregate debit items as shown in the Formula for Reserve Requirements pursuant to SEA Rule 15c3-3. A firm that claims the *de minimis* exception must affirmatively indicate through functionality on the eFOCUS system that no filing is required for the reporting period.

The OBS must be filed within 22 business days after the end of each calendar quarter.

##### **SPECIFIC INSTRUCTIONS**

#### **1. Commitments**

##### **A. Securities Underwriting**

Report the market value of open contractual commitments to issuer(s) at quarter-end, net of confirmed sales, including both registered and non-registered issuances not otherwise reported on the balance sheet.

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

##### **B. Financing commitments not included on items 3F or 3G**

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

##### **C. Guarantees**

Report on line 10105 (as a credit) the notional dollar amount of all guarantees of third party and affiliate obligations that are not reflected on the balance sheet.

**2. Variable Interest Entities (VIEs)**

**A. Unconsolidated VIEs**

Report the gross amounts of assets and liabilities of unconsolidated VIEs in which the firm holds an interest.

**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 has been included on the balance sheet for any entity(ies) that is not consolidated in the audited consolidated financial statements and whose assets and liabilities are included on item 2A of this schedule.

**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 Transaction**

**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 Borrowed 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 dollar amount of cash the broker-dealer has agreed to lend on forward starting Reverse Repo and Securities Borrowed transactions.

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

Report the dollar amount of cash the broker-dealer has agreed to borrow on 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 Settlement Trades**

**A. When Issued Securities**

Report the gross long and short notional 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 notional 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 notional 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 notional values of TBA transactions that have passed their contracted settlement date and are not included as fails on the balance sheet.

**E. Other**

Report the gross long and short notional value of any other Non-Regular Way settlement transactions not otherwise included on the balance sheet or on items 4A through D.

**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.

**6. Total gross notional amount**

Report in the appropriate column according to the contract's underlying risk exposure: interest rate, foreign exchange, equity, commodity and other. Contracts with multiple underlying risks should be reported based upon the greatest risk at the origination of the contract. Credit derivatives should be excluded from items 6 through 9 and reported in items 10 through 13.

Firms should net offsetting intracompany swaps between desks. No other netting should be done for purposes of reporting on this schedule, even if contracts are subject to bilateral netting agreements.

FINRA  
FORM  
OBS

**SUPPLEMENTAL QUARTERLY SCHEDULE TO FOCUS REPORT**  
**DERIVATIVES AND OTHER OFF-BALANCE SHEET ITEMS**  
*(Please read instructions before completing Form)*

NAME OF BROKER-DEALER _____ <span style="float: right;">13</span> ADDRESS OF PRINCIPAL PLACE OF BUSINESS _____ <span style="float: right;">20</span> (No. and Street) _____ <span style="float: right;">21</span> _____ <span style="float: right;">22</span> _____ <span style="float: right;">23</span> (City) (State) (Zip Code)	SEC FILE NO. _____ <span style="float: right;">14</span> FIRM ID NO. _____ <span style="float: right;">15</span> FOR PERIOD ENDING (MM/DD/YY) _____ <span style="float: right;">25</span> NAME OF PERSON COMPLETING THIS REPORT _____ <span style="float: right;">10001</span> TELEPHONE NO. OF PERSON COMPLETING THIS REPORT _____ <span style="float: right;">10002</span>
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Amounts should be reported in thousands.

		Gross Amounts Debit or Long Market Value (000s)		Gross Amounts Credit or Short Market Value (000s)
<b>1. Commitments</b>				
A. Securities Underwriting .....	\$ _____	10100	\$ _____	10101
B. Financing commitments not included on items 3F or 3G .....	\$ _____	10102	\$ _____	10103
C. Guarantees .....	\$ _____	10104	\$ _____	10105
<b>2. Variable Interest Entities (VIEs)</b>				
A. Unconsolidated VIEs .....	\$ _____	10108	\$ _____	10107
B. Maximum exposure to loss relating to unconsolidated VIEs .....	\$ _____	10108	\$ _____	10109
Memo item: Investment in unconsolidated VIEs...\$ _____		10110		
C. Maximum exposure to loss relating to consolidated VIEs .....	\$ _____	10111	\$ _____	10112
<b>3. Off-Balance Sheet Financing Transactions</b>				
A. Reverse Repos and Repos offset pursuant to ASC 210-20-45-11 .....	\$ _____	10113	\$ _____	10114
B. Transactions offset pursuant to ASC 210-20-45-1 .....	\$ _____	10115	\$ _____	10116
C. Reverse Repos/Repos to maturity pursuant to ASC 860-10-40-5 .....	\$ _____	10117	\$ _____	10118
D. Securities Borrowed vs. Pledge agreements .....	\$ _____	10119	\$ _____	10120
E. Reverse Repo vs. Pledge agreements .....	\$ _____	10121	\$ _____	10122
F. Forward starting Reverse Repurchase and Securities Borrowing agreements .....	\$ _____	10123	\$ _____	10124
G. Forward starting Repurchase and Securities Lending agreements .....	\$ _____	10125	\$ _____	10126
H. Other .....	\$ _____	10127	\$ _____	10128
<b>4. Non-Regular Way Settlement Trades</b>				
A. When Issued Securities .....	\$ _____	10129	\$ _____	10130
B. Delayed Delivery/Delayed Settlement .....	\$ _____	10131	\$ _____	10132
C. To Be Announced (TBA) transactions .....	\$ _____	10133	\$ _____	10134
D. TBA related fails not included on balance sheet .....	\$ _____	10135	\$ _____	10136
E. Other .....	\$ _____	10137	\$ _____	10138
<b>5. Forwards</b>				
A. Foreign Exchange .....	\$ _____	10139	\$ _____	10140
B. Other .....	\$ _____	10141	\$ _____	10142

**SUPPLEMENTAL QUARTERLY SCHEDULE TO FOCUS REPORT  
DERIVATIVES AND OTHER OFF-BALANCE SHEET ITEMS**  
For the period (MM/DD/YY) ending \_\_\_\_\_ 25

	Derivatives							
	Interest Rate Contracts		Foreign Exchange Contracts		Equity Derivative Contracts		Commodity and other Contracts	
	(000s)		(000s)		(000s)		(000s)	
6. Total gross notional amount .....	\$ _____	10143	\$ _____	10144	\$ _____	10145	\$ _____	10146
7. Dollar amount in item 6 that is centrally cleared .....	\$ _____	10147	\$ _____	10148	\$ _____	10149	\$ _____	10150
8. Total Mark-to-Market receivable (Debit) .....	\$ _____	10151	\$ _____	10152	\$ _____	10153	\$ _____	10154
9. Total Mark-to-Market payable (Credit) .....	\$ _____	10155	\$ _____	10156	\$ _____	10157	\$ _____	10158

	Credit Derivatives			
	Sold Protection (000s)		Purchased Protection (000s)	
10. Total gross notional amount .....	\$ _____	10159	\$ _____	10160
11. Dollar amount in item 10 that is centrally cleared .....	\$ _____	10161	\$ _____	10162
12. Total Mark-to-Market receivable (Debit) .....	\$ _____	10163	\$ _____	10164
13. Total Mark-to-Market payable (Credit) .....	\$ _____	10165	\$ _____	10166